



# St. Mary's University

St. MARY'S UNIVERSITY SCHOOL OF BUSINESS DEPARTEMENT OF MBA  
IN ACCOUNTING AND FINANCE

**The Challenges of Post Clearance Audit in Ethiopian Revenues and Customs  
Authority: The Case of Addis Ababa Kality and Mojo Dry Port Customs  
Branch Offices**

By: Mitiku Wujira

Addis Ababa, Ethiopia

Jan, 2016

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**A Thesis Proposal Submitted to the School of Business Department of MBA in Accounting and Finance of the St. Mary's University, in Partial Fulfillment of the Requirements for the Award of MBA in Accounting and Finance**

**Addis Ababa, Ethiopia**

**Jan, 2016**

## Declaration

I, Mitiku Wujira Badie, declare that this thesis, entitled “The Challenges of Post Clearance Audit in Ethiopian Revenues and Customs Authority: The Case of Addis Ababa Kality and Mojo Dry Port Customs Branch Offices”, is prepared with my own effort for the partial fulfillment of the requirements for MBA in Accounting and Finance. I have made it independently with the close advice and guidance of my advisor; and all sources of materials used for the study have been duly acknowledged.

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This thesis has been submitted for examination with my approval as a university advisor.

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## Approval

The undersigned certify that we have read and hereby recommend to the St. Mary's University to accept the Thesis submitted by Mitiku Wujira Badie and entitled "The Challenges of Post Clearance Audit in Ethiopian Revenues and Customs Authority: The Case of Addis Ababa Kality and Mojo Dry Port Customs Branch Offices", in partial fulfillment of the requirements for the award of MBA in Accounting and Finance.

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Head of Department..... Signature..... Date.....

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## Abbreviations and Acronyms

AFRITAC	African Tax and Customs
AEO	Authorized Economic Operators
ASYCUDA	Automated System for Customs Data
EAC	East African Community
ERCA	Ethiopian Revenues and Customs Authority
FDRE	Federal Democratic Republic of Ethiopia
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GDCE	General Department of Customs and Excise of Cambodia
HS	The Harmonized Commodity Description and Coding System
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
IT	Information Technology
OSPCA	On-Site Post Clearance Audit
PCA	Post Clearance Audit
SIGTAS	Systematically Integrated Government Tax Administration System
SPSS	Statistical Package for Social Science
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Aid for International Development
WCO	World Customs Organization
WTO	World Trade Organization

### **Abstract**

*The increasing global demand towards trade facilitation that reduces customs intervention on physical inspection during clearance proportionately increases the activities of PCA control. The main objective of this study was to assess the major challenges in the implementation of Post Clearance Audit in Addis Ababa Kality and Mojo Dry Port Customs Branch Offices. In particular, it investigated the level of competency of the PCA staff, the extent of application of risk management technique in PCA, the degree of harmonization of the PCA with respective departments, and the extent of quality assurance review of audits. To achieve these objectives, both quantitative and qualitative research approaches were used and data were collected from primary and secondary sources. The primary data were collected using survey method from the PCA staff and the management of the respective offices, and also from customs clearing agents and traders. Descriptive statistics through the application of SPSS (21 version) were employed to analyze and interpret the data. The findings of the analysis provided that majority of the PCA staff members lack the required skill and competency to undertake effective PCA, no automated risk management is currently applied for the purpose of PCA, there is weak coordination in exercising joint audits, and no central monitoring and quality assurance mechanism for PCA outcomes is established in ERCA. Finally, the researcher recommends that the PCA staff should be equipped with comprehensive and advanced technical training skills tailored to today's complex international trade transaction and sophisticated accounting systems, ERCA should establish a risk management unit with in the PCA directorate which is dedicated to risk profile development, central audit case selection and risk analysis for targeting potentially high-risk traders/operators, the PCA directorate should initiate, guide and coordinate joint audits of PCA with domestic tax audit and across Customs Branch Offices to detect and deter potential non-compliance, and ERCA should put in place a monitoring and quality assurance unit in order to evaluate the performance of the PCA program.*

*As a conclusion in order to respond to the global pressures exerted towards trade liberalization and facilitation, customs administration are forced to change their approaches from preclearance to post clearance controls. However, implementation of risk-based post clearance audit controls require a significant investment in material and human resources .With this view, customs authorities need to adopt and maintain international standards and best practices so as to ensure quality audit.*

*Key words or phrases: customs, post clearance audit, risk management, compliance*



## **CHAPTER ONE: INTRODUCTION**

### **1.1. Background of the Study**

The World Customs Organization's (WCO) (1999) Revised Kyoto Convention on the Harmonization and Simplification of Customs Procedures and the World Trade Organization (WTO) (2001) recommend a comprehensive list of best principles and practices that modern customs administrations should follow. The principle of customs control is one of the key principles outlined in the Revised Kyoto Convention. It emphasizes the need for customs agencies to move towards post clearance controls to facilitate trade. The convention recommends customs administrations to shift from exclusive use of transaction-based controls to more post clearance audit-based controls by applying risk management techniques in all customs controls. Hence, PCA is introduced as part of the customs modernization program.

Similarly, the United Nations Conference on Trade and Development (UNCTAD) (2011) emphasizes the essence of Post Clearance Audit (PCA) and describes it as "audit-based Customs control performed subsequent to the release of the cargo from Customs custody. The purpose of such audits is to verify the accuracy and authenticity of declarations and covers the control of traders' commercial data, business systems, records and books." Such an audit can take place at the premises of the trader, and may take into account individual transactions, so-called "transaction-based" audit, or cover imports and/or exports undertaken over a certain period of time, so-called "company-based" audit. In particular, Chapter 6, Standard 6.6. and 6.10, of the General Annex of the Revised Kyoto Convention (WCO, 1999) sets out a large number of recommended standards relating to all aspects of Customs control, including the use of audit-based controls and the audit of traders' commercial systems.

Likewise, the USAID (2011a) outlines that the scope of post clearance audits can cover all customs regimes, i.e. temporary importation, inward processing, duty free zones, end use tariff items, and therefore enhance customs control over some of these regimes, which could not be checked at the border.

Further, the benefits resulting from the introduction of PCA approach include; customs efficiency and trade facilitation, improved collaboration between traders and customs, improved

compliance with laws and regulations, better human resource allocation, increased revenue yield, reduced release time, and lower transaction costs (EAC, 2012).

Within the Ethiopian customs context, the Ethiopian Revenues and Customs Authority (ERCA), headquarters located in Addis Ababa (the capital city of Ethiopia), was established in 2008 with core objectives to establish a modern tax system, to enhance voluntary tax compliance, to enforce tax and customs laws, and to collect timely and efficiently tax revenue generated by the economy. ERCA has fifteen Branch Offices throughout different regions of the country. As per the annual reports of ERCA in 2013 and 2014, Addis Ababa Kality Customs Branch Office (found in Addis Ababa) and Mojo Dry Port Customs Branch Office (found in Oromia region, about 70 km away from Addis Ababa to south east) were the customs Branch Offices which made relatively higher tax revenue contribution for the last two years.

ERCA adopted the PCA program in 2010 and the program has been practiced for the last five years. The indicated Branch Offices consist of respective PCA units with common objectives of ensuring voluntary compliance and deterring non-compliance through effective and efficient post clearance audit programs.

Despite the efforts of ERCA in adopting a PCA policy and providing comprehensive standard operating procedures for undertaking post clearance audit, the practice in the indicated Branches faces serious limitations. Lack of skilled and competent PCA staff, absence of risk management techniques in the selection of audits, lack of harmonization, and absence of monitoring and quality assurance review are among the problems facing the post clearance audit units. The prevalence of such problems may create potential obstacle for the achievement of objectives of the post clearance audit program. Further, this may ultimately result in a significant revenue loss and worsening of non-compliance in the country. Thus, the researcher's interest is to investigate the challenges of the PCA practice in the indicated Branch Offices.

According to a recent similar diagnostic research by Atsibha (2014), serious deficiencies in human and physical resource management, in the adoption of risk management techniques, and in legal framework development have been identified. The recommendations forwarded by the researcher are quite relevant that the authority will be benefited from their implementation.



However, this research would differ from the indicated research in that this study mainly focuses on in-depth assessment of auditors' capacities to successfully deal with post clearance audit controls based on internationally recommended best practices. In addition, it is also concerned with other implementation gaps associated with audit harmonization and review of audit outcomes that were uncovered by the previous study. Indeed, this research is conducted on the two largest Customs Branch Offices of ERCA in terms of staff, transaction and revenue contribution. Then, the aim of this study is to assess the challenges in post clearance audit practice in the indicated offices.

## 1.2. Statement of the Problem

The challenges of the 21<sup>st</sup> Century are placing massive demands on Customs administrations. Now, more than ever before, there is a need for Customs administrations to be more responsive. Thus, many customs administrations today recognize that a fundamental shift has taken place with respect to their control approaches. Accordingly, compliance verification through Post Clearance Audit is adopted, as a recent control approach, by many countries to balance gaps and potential risks caused by any procedural simplification in customs (IMF, 2011).

Customs PCA controls must be carried out by professionally qualified and trained Customs personnel. With the increased use of electronic record-keeping and the sophistication of global trade, the need for higher standards of training becomes increasingly important. As successful implementation of PCA program is dependent on both appropriate human and material resources, customs officers should be equipped with appropriate office facilities, furniture and equipment in a timely manner (USAID, 2011a).

According to the semiannual, 2014, performance reports issued by the respective PCA units of Addis Ababa Kality and Mojo Dry Port Customs Branch Offices, the increasing volume of transactions released at low risk at the clearance level, subject to audit, added to the serious lack of skilled and experienced auditors in the PCA units has been a critical obstacle to undertake effective audit. In fact, only about 28% and 15% of the PCA officers positions in Addis Ababa Kality and Mojo Dry Port Customs Branch Offices respectively are currently staffed. The reports

from both offices also highlighted that inadequate logistics in terms vehicles and equipments (laptops) has also significantly affected the performance of the field audit.

Obviously, lack of skill and competency with the PCA auditors affects the quality or standard of the post clearance audit. For instance, if the PCA auditors lack basic skills regarding Generally Accepted Accounting Principles (GAAP), customs and domestic tax laws and procedures, business strategies in international trade, royalty agreements and etc., then the auditors could not be able to detect fraudulent practices. Consequently, this will result in loss of revenue for the authority.

Similarly, it is also learnt from the indicated reports that no automated risk management is currently applied for audit selection by PCA in both Branch Offices due to the absence of risk profiling. The risk selectivity is limited to clearance purposes. On the other hand, the risk channeling trend in ASYCUDA++ for the purpose of clearance at Addis Ababa Kality Customs Branch Office of ERCA illustrates that the customs intervention on physical inspections of consignments has declined on average from 86% in 2010 to 47% in December 2014. This in turn demands customs to allocate the desired resources in the post clearance audit control in order to maintain appropriate balance between trade facilitation and customs control.

Implementation of post clearance audit is part of the risk management strategy. Thus the selection of persons/companies for audit should be based on risk profiles (USAID, 2011a). The post clearance policy manual in ERCA developed in 2013 also provides the adoption of risk management techniques for effective post clearance audit. Consequently, the absence of risk-based post clearance audit will prevent PCA units from effectively targeting the small number of high-risk consignments requiring detailed documentary scrutiny and/or physical inspection, while releasing the majority of low risk consignments with a minimum intervention or inconvenience. Ultimately, this will worsen non-compliance and illegal act.

Moreover, based on a personal observation as an employee in Addis Ababa Kality Customs Branch Office since 2008, the author has noticed that the PCA activities and the domestic tax audits are, in practice, not in harmony. In other words, customs auditors bother about under invoicing which lowers the customs value of the imported goods that ultimately reduces the

amount of duty and tax while domestic tax auditors bother about over invoicing which increases the cost of the imported goods that ultimately reduces the amount of profit tax. Indeed, it is mandatory to unfold this paradox.

To illustrate, the practice of over invoicing of imported items to adjust to the customs data base price by customs auditors, on the presumption of under invoicing, increases the amount of customs duty and tax of the imported goods. However, such deliberate adjustment in the price by customs sometimes results in a decrease in the amount of profit tax by an amount that is greater than the increased customs duty and tax amount. Similarly, joint field audits on traders operating through different customs Branch Offices are almost non-existent. No formal procedures for coordination of joint audits are established in ERCA. Then, such lack of harmonization and coordination of audits in some cases creates a significant revenue leakage for the authority and also involves burden, cost and inconvenience for the auditees.

PCA is not a standalone system but one function of the Customs Organization optimally linked to the other relevant functions. It benefits PCA to exchange knowledge and information with departments responsible for VAT, excise and direct taxes. Further, include as appropriate, joint audits with domestic tax administration as part of the national PCA plans (IMF, 2011). Headquarters has the responsibility of managing the PCA program on a national level and ensuring there is a consistent and fair approach applied in all regions. Where a trader may be operating in a number of regions, headquarters has a responsibility for coordinating audits being undertaken on a single trader operating in different regions (USAID, 2011a).

Lastly, there are no central monitoring and review mechanisms in the indicated offices for ensuring the quality and consistency of PCA outcomes and for evaluating the overall success of PCA. The absence of these audit procedures will prevent customs from introducing corrective measures and cost-benefit analysis mechanisms on the performance of PCA. Customs shall put in place a suitable monitoring arrangement to review the progress and performance of PCA and to identify audit gaps regularly so as to bring comprehensiveness and efficiency in its operations. For the purpose of enhancing the effectiveness of PCA, the Audit department shall examine and review on selective basis 10% of the audit reports to see whether the audit has been conducted as per prescribed procedure (OSPCA, 2011).

The issues indicated above show that there is a considerable implementation gap on the post clearance audit practice in the indicated offices that may lead to significant revenue loss and prevalence of potential non-compliance with customs laws. Failure to appropriately address these execution gaps will ultimately create national deficit and economic instability for the country.

With a primary aim to promote greater voluntary compliance, to achieve effective revenue collection, and to ensure successful delivery of high quality tax audit, ERCA has adopted a risk-based post clearance audit policy and strategy since 2010. However, the post clearance audit units in Addis Ababa Kality and Mojo Dry Port Customs Branch Offices face significant challenges upon implementation of this policy and strategy. Based on the indicated semiannual performance reports and the researcher's observation at the indicated customs offices, one of the major challenges in the respective post clearance audit units is the inefficiency to meet and maintain the audit standards and best practices as outlined in the PCA policy of ERCA and in other international instruments. Thus, the researcher's interest is to attempt to investigate the major challenges in the implementation of post clearance audit in Addis Ababa Kality and Mojo Dry Port Customs Branch Offices. Accordingly, this research is going to address the following research questions.

### Research Questions

1. How competent are the PCA staff members to undertake effective post clearance audit?
2. What is the level of application of risk management approaches in PCA for the selection of audit cases?
3. To what extent is PCA harmonized with domestic tax audit and across other customs Branch Offices to exercise joint audits?
4. What is the degree of monitoring and review of audit outcomes undertaken by Addis Ababa Kality and Mojo Dry Port Customs Branch Offices?

### 1.3. Objectives of the Study

The study has both general and specific objectives.

### 1.3.1. General Objective

The main objective of this study is to assess the key constraints in the implementation of the PCA policy measures in ERCA focusing on the cases of Addis Ababa Kality and Mojo Dry Port Customs Branch Offices.

### 1.3.2. Specific Objectives

The specific objectives of the study focus on the following issues:

1. To examine the level of skill and competency of the PCA staff in Addis Ababa Kality and Mojo Dry Port Customs Branch Offices
2. To assess the extent of risk management application for PCA practice in Addis Ababa Kality and Mojo Dry Port Customs Branch Offices
3. To assess the extent of harmonization and coordination of post clearance audit with the activities of domestic tax offices or across customs Branches in exercising joint audits
4. To indicate the extent of audit monitoring and review in ERCA

### 1.4. Significance of the Study

The study provides customs officials with an empirical data for understanding the execution gaps and potential risks in the current PCA practice and for developing a range of corrective strategies towards efficient and effective implementation of PCA programs. In addition, it also provides PCA officers with some helpful perspectives and insights to tackle formidable challenges on proper implementation of PCA. Finally, it provides a basis for further developments in the field of customs post clearance audit control.

### 1.5. Scope of the Study

This study is limited to an assessment of the challenges of post clearance audit practice in Addis Ababa Kality and Mojo Dry Port Customs Branch Offices of ERCA, for the period 2010-2014. The study was confined to the indicated Customs Branch Offices selected based on the proportion of transactions and tax revenue contributions for the last two consecutive years, 2013-2014. The study examines the level of competency of the PCA staff, the degree of application of

risk management techniques in PCA, the extent of joint audit practice, and the monitoring and review of audits in the indicated customs offices. This research does not address the effect of PCA on compliance level.

#### 1.6. Limitations of the Study

As Post Clearance Audit is introduced as a recent customs control approach, relevant literature in the area are mostly limited to those guidelines developed by international organizations such as the WCO, USAID, IMF, World Bank, JICA and EAC. Thus, lack of literature and empirical studies has been a major constraint in conducting this research. In addition, absence of compiled data for earlier reports and records of PCA was also a limitation in conducting this study.

#### 1.7. Organization of the Paper

This research is organized into five chapters. The first chapter details the basic concept, background information, statement of the problem, objectives of the study, significance of the study, scope of the study and limitations of the study.

The second chapter describes the literature review. In the third chapter, the research methodology, techniques of data collection and analysis are included. Lastly, the fifth chapter presents the conclusions and recommendations based on the findings.

#### 1.8. Operational Definitions of Key Terms and Terminologies (UNCTAD) (2011)

**Audit-based Control:** Measures by which the Customs satisfy themselves as to the accuracy and authenticity of declarations through the examination of the relevant books, records, business systems and commercial data held by persons concerned

**Post Clearance Audit (PCA):** The process of verifying the compliance of a business with Customs legislation, through an examination of accounts and other records of that business

**Auditee :** A person or company such as importer, exporter, customs broker, operator of customs bonded warehouse, or transportation operator to whom PCA is conducted

Risk: The potential for non-compliance with Customs Laws

Risk Management: The systematic application of management procedures and practices which provide Customs Authorities with the necessary information to address movements or consignments which present a risk

Risk indicators: Specific criteria which, when taken together, serve as a practical tool to select and target movements for the potential for non-compliance with customs laws/procedures

Risk profile: A group of common characteristics or a combination of risk indicators based on information which has been gathered, analyzed and categorized

Authorized Economic Operator (AEO): A status given to a trader/operator that fulfills certain criteria such as appropriate record of compliant with customs requirements

Ad Valorem Duty: Duty expressed as a percentage of the customs value of goods

Customs Value: The value of goods for the purposes of levying ad valorem duties of customs on imported or exported goods

Customs Valuation: The determination of the customs value of imported or exported goods.

## **CHAPTER TWO: LITRATURE REVIEW**

### 2.1 Theoretical Review

This section deals with the general concepts and principle on Customs Post Clearance Audit policy and strategy. It mainly describes the central issues pertaining to conduct of Post Clearance Audits.

#### 2.1.1. Definitions and Concepts

While the definition of the term Post Clearance Audit slightly varies with different literature, the widely accepted definition adopted by WCO (2012, p.4) is as follows. Post clearance audit means “the inspection by customs on customs files, accounting books, accounting documents and other relevant documents and data of imports or exports subsequent to the release of goods.” Post clearance audit shall be conducted to verify the accuracy and integrity of the contents of documents (customs profiles) which are logged by clearing agents or by owners of the goods to customs; and also to evaluate the compliance of customs law and other laws relevant to import or export administration of clearing agents and the owners of the goods. PCA is normally implemented as part of a customs modernization program stated in the Revised Kyoto Convention, Standard 6.6. (WCO, 2012).

Thus, PCA aims to verify the accuracy and authenticity of Customs declarations through the examination of relevant import documentation and records including electronic data.

#### 2.1.2. Types of Post Clearance Audit

According to EAC (2010), the following are among the common types of post clearance audits.



- Desk Audits

Such audits are document verification checks of nominated transactions conducted at Customs offices. Desktop audits are generally conducted to monitor the activities of clients where a specific risk can be addressed by examining commercial documents.

- Focused (Issue) Audits

These are audits usually conducted at a client's premises to enable closer liaison with the client and for ease of access to computer and document-based records. The aim is to examine specific aspects of the client's interaction with Customs.

- Comprehensive Audits

Comprehensive audits are audits normally conducted in response to intentional or continued non-compliance or where there is a large volume of transactions involved. A comprehensive audit covers all aspects of a client's relationship with Customs including import and export transactions, depot or warehouse operations and manufacturing or storage operations. Comprehensive audits are conducted at the client's premises.

### 2.1.3. Objective of Post Clearance Audit

The overall purpose of Post Clearance Audit control is to assure that traders and other associated operators are fully complying with the Customs law and all other relevant national and/or international laws and regulations. Hence the main objective of Post Clearance Audit is to assess the compliance levels of the auditees and to verify the accuracy of declarations (WCO, 1999).

A recent study by WCO (2012) pointed out the following key objectives of PCA.

- a. To assure that Customs declarations have been completed in compliance with Customs requirements through the examination of a trader's systems, accounting records and premises;
- b. To verify that the amount of revenue legally due has been identified and/or paid;
- c. To facilitate international trade movements of the compliant trade sector;
- d. To ensure goods liable to specific import/export controls are properly declared, including prohibitions and restrictions, licenses, quota, etc.;
- e. To attain optimal allocation of scarce resources

Because a PCA aims to ensure compliance and to detect the risk of non-compliance, the measure of success should be expressed in terms of traders' improvements in compliance resulting from more effective control processes, not on the amount of additional revenue collected (USAID, 2011b).

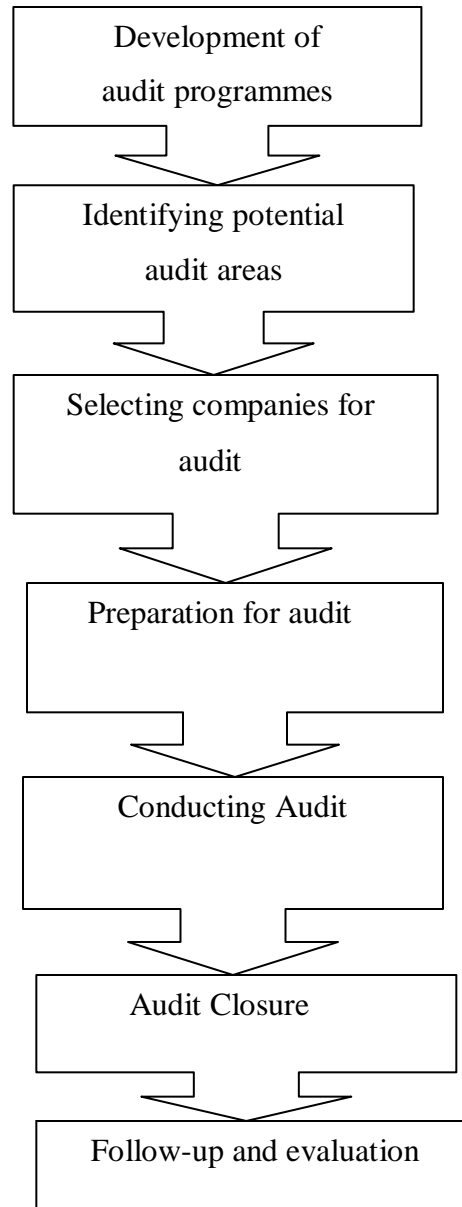
#### 2.1.4. Benefits of Post Clearance Audit

The introduction of post-clearance audit techniques benefits both customs and the trading community. For customs, post-clearance audits can help protect revenue, improve traders' compliance, detect and prevent fraud, and increase the efficiency of customs control. For the trading community, post-clearance audits can expedite the clearance of goods by reducing the frequency of customs interventions at the border, seaport, airport, or inland terminal. Rather than resolving all issues before release which often generates costly delays, customs conducts audit-based controls on the trader or broker's premises after releasing goods to the importer (USAID, 2011a).

### 2.1.5. The Post Clearance Audit Process

A common post clearance audit process consists of the following seven steps as shown in Figure 2.1 below

Figure 2.1: Post Clearance Audit Process



Source: USAID (2011a, p.56)

### 2.1.6 Standards for Post Clearance Auditors

The increased use of electronic record-keeping and the sophistication of global trade have necessitated the need for higher level of professional and ethical standards for customs post clearance auditors. Such standards ensure consistency and quality, and they also provide a framework for the audit processes (WCO, 2012). The WCO further outlines the following main audit standards to be followed when performing a post clearance audit.

- Competency

The general standard of the Generally Accepted Auditing Standards (GAAS) states that audit is to be performed by a person or persons having adequate training (Beasley, 2005). Thus, post-clearance audits should be performed by professionally trained Customs personnel/auditors. Effective and efficient conducts of PCA cannot be achieved without sufficient skills of PCA officers. As a result, customs post clearance audit officers should be trained and equipped with necessary skills and tools in order to perform their duties effectively and efficiently. Regarding recruitment of auditors, the USAID (2011b). proposes prerequisites that a PCA specialist should have educational qualification of a university degree, a solid background in accounting, and two or more years of experience in customs operations.

With the increased complexity in international trade transaction and the application of sophisticated accounting systems, the PCA officers are required to equip the following skills in order to meet their obligations (USAID, 2011a, P.22).

- Accounting techniques and principles as outlined in Generally Accepted Accounting Principles (GAAP);
- Auditing standards and procedures;
- The international business strategies including banking procedures, transfer pricing methods;
- Customs laws, regulations and procedures (valuation, HS codes, origin, etc.);
- Electronic record-keeping and computer systems

In addition, the USAID (2011a) recommends a multidisciplinary approach to PCA in which the PCA team includes officers with specialized experience in valuation, classification, rules of origin; inspection, IT-based Accounting, and Multinational Corporation Accounting. Accordingly, customs recruitment and training policy should address the above needs. In some cases, external support may be necessary to provide the specialist skills. For instance, with regard to knowledge of transfer pricing, assistance may be sought from direct tax officials.

- Professional Due Care

Just as the physician is expected to be prudent and thorough in performing a physical examination and making a diagnosis, the auditor is expected to be diligent and careful in performing an audit and issuing a report on the findings. In meeting this standard, the experienced auditor should critically review the work done and the judgments exercised by less experienced personnel who participate in the audit. The standard of due care requires the auditor to act in good faith and not to be negligent in an audit.

- Objectivity

The Principle of objectivity requires auditors to base their judgment solely on the facts of reality and in accordance with the provisions of the law. In other words, auditors should be free from prejudice and be able to express their opinion without fear or favour. Where it comes to the notice of the auditor that duties and taxes have been overpaid, or any exemption has not been claimed, these matters shall be brought to the attention of the trader (ERCA, 2013a).

- Integrity

Auditors should be straightforward and honest, with strong character and courage of conviction in performing their duties. Integrity implies not merely honesty but fair dealing and truthfulness. Integrity breeds trust and confidence.

- Confidentiality

The information gained in the course of audit should not be disclosed without the consent of the auditee unless there is a public duty or legal right to disclose. Therefore confidentiality justifies desire of protecting an auditee's privacy.

- Transparency

Post clearance audits should be executed in an open, transparent and fair manner. As PCA is based on voluntary compliance, communication and fruitful partnership between customs and the auditee is of paramount importance, if the audit is to be successful.

In this respect, field audits provide the customs auditor an opportunity to assist, educate and advise the importer on customs requirements. The officer in charge of the case should be in contact with the client on a regular basis, to keep them informed of audit progress and results. In addition, the auditee's responses to the audit results should be included in the final report.

#### 2.1.7 Selection of Persons/Companies for Audit

Due to the increase in volume and speed of international trade, the global need to facilitate the clearance of goods and the existence of limited customs resources it is impossible to examine all transactions at the time of clearance. For this reason, customs should focus on high-risk targets selected based on risk profiles. Risk-based cargo selectivity replaces examination of 100 percent of cargo with selective controls based on both specific risk indicators and random selection (USAID, 2011a). Risk-based selectivity enables speedier clearance of compliant cargo and enables customs to devote fewer resources to low-risk traders and more resources to high-risk traders. The fact that a trader has been audited and found to be compliant reduces the perceived risk of the trader. This allows a customs administration to refocus its attention and limited resources on higher risk traders.

Indeed, the implementation of post clearance audit is part of the risk management strategy. So, the efficiency and effectiveness of customs post clearance audit to a large degree depends on the risk management processes operated at each stage of customs controls. Thus, the selection of

persons/companies should be based on risk profiles and selection criteria for audit candidates should be developed taking into account intelligence, high risk priority, random selection and government priority (World Bank, 2013).

Similarly, the criteria for the selection of cases for audit developed by the World Bank (2013) include:

- Past history of the company;
- Type of commodity/industry;
- Volume and value of imports/exports;
- Referral information from other Customs units
- Origin of goods;
- Risk of revenue loss; and
- Government program priorities

The ASYCUDA++ Selectivity module is a risk management tool that enables Customs to control the flow of declarations in the ASYCUDA ++ clearance system. The module allows viewing of selected declarations and their respective selection criteria (i.e. Red, Blue, Yellow and Green lane). The Red lane refers to high risk declarations selected for physical examination before release. The Yellow lane refers to medium risk declarations selected for documentary checks before release. The Blue lane refers to low risk declarations selected for Post Clearance Audit while the Green lane refers to low risk declarations selected for direct release.

#### 2.1.8 Authorized Economic Operators (AEOs) and PCA

The Revised Kyoto Convention recommends that customs administrations give large and compliant authorized traders expedited clearance privileges, including lower rates of documentary verification and physical inspection. However, the Convention also recommends that such authorized trader schemes require that traders must undergo a compliance audit prior to being granted such privileges. Once approved, operators should undergo periodic compliance audits to reconfirm that the trader is still compliant with customs requirements (WCO, 1999).

A case study in Georgia illustrates that authorization of privileges prior to compliance audit of AEOs assumes a risk for customs. In Georgia, a number of senior managers were asked whether they perceived AEOs as a potential risk. There is an almost identical response that AEOs were surely compliant, they must continue to receive maximum trade facilitation and there was little need to perform any cargo inspections at their premises or subject them to PCA. However, this faith in the compliance of AEOs was not shared by many middle managers, rank and file officers or the private sector representatives who viewed the privileges being received by AEOs with great suspicion. While many AEOs may in fact be highly compliant, there is an urgent need to at least confirm such compliance since international experience has shown far too often that large traders can be involved in fraudulent activities when they realize that no control is being exercised on them, and that the extent of the revenue loss can be significant given the turnover of these companies (USAID, 2011a).

Since PCA provides a platform for evaluating continued entitlement to Authorized Economic Operator status, selective auditing of AEOs in both desk and comprehensive audit would confirm their compliance and eligibility to continue to receive the privileges of the program. Therefore, selection of AEOs should be subjected to customs PCA as a matter of priority (USAID, 2011a).

#### 2.1.9 Harmonization and Coordination of Post Clearance Audit with Other Departments

PCA is not a standalone system but one function of the Customs organization optimally linked to the other relevant functions. It is recommended that communication channels are established with Customs clearance units and other control, risk and enforcement units to share knowledge and information on a particular commercial operator. It also benefits PCA to exchange knowledge and information with departments responsible for VAT, excise and direct taxes (WCO, 2012).

Customs Valuation is worth mentioning in this regard. Wulf and Sokol (2005) argue that the introduction of audit-based control is an essential element of the effective implementation of the WTO Valuation Agreement (WTO, 1994). Thus, an effective implementation of PCA is required to plug revenue leakage through under invoicing. This also helps to conform the accuracy of the declared customs value against all provisions stipulated in the valuation agreement. The Customs



Auditor must ensure that all of the accounting records will be available during the audit visit. The Customs Auditor's request for the records to be available may include the following; expense records and receipts, bank records, purchase/sale invoices, import and export documents, inventory records, annual accounts, such as profit and loss statements, balance sheet, and etc.

One of the objectives of PCA regarding the customs value of imported goods is to determine if the importer has made any royalty payments that should be incorporated into the customs value, or to determine if the importer has provided any input materials or other support to the exporter in the production of the imported goods, the value of which has not been reflected in the commercial invoice for the imported goods. All in all, this determination is made through an examination of the financial records of the enterprise for payments that might pertain to the imported goods and it is efficiently verified in joint audit with the relevant domestic tax departments.

In conclusion, with the introduction of the WTO valuation system, customs will, in most cases, have to accept the customs value of goods as declared by importers. This will necessitate the creation of an effective post-clearance audit system to verify the customs value and to detect and prevent fraud. Thus the head of the PCA unit will be responsible for overseeing the implementation of the PCA process, ensuring it is conducted in accordance with the principles established in the strategy, liaising with other customs departments, managing communication with the private sector, and recruiting experts. To ensure that audits are carried out effectively and consistently, Customs should prepare standardized procedures, and recommended collaboration between the PCA unit and other Customs units. It is also recommended that the procedures are set out in written guidelines and made available to Customs audit staff (USAID, 2011b).

Headquarters has the responsibility of managing the PCA program on a national level and ensuring there is a consistent and fair approach applied in all regions. Where a trader may be operating in a number of regions, headquarters has a responsibility for coordinating audits being undertaken on a single trader operating in different regions (USAID, 2011a).

### 2.1.10 Monitoring and Quality Assurance Review of Audit

Customs administrations should develop a mechanism to measure, assess and evaluate the success of their post clearance audit programmes. Customs managers must constantly evaluate employees' performance, allocate human and material resources in keeping with workload, implement and monitor procedures, and adjust staffing and work focus in accordance with the data-driven decisions made possible by a PCA program. They must ensure that all resources are used to their optimum capacity (East AFRITAC, 2008).

Further, the post clearance strategy developed by USAID (2011a) provides that the PCA management should selectively monitor and review PCA activities and outcomes to ensure that:

- the PCA team had selected the right cases for audit;
- the PCA team had identified the right issues to audit;
- the PCA unit had undertaken the audit using the appropriate methodology for the risk identified;
- the audit team had collected the right information and made correct judgments;  
and
- the audit team had conducted the audit in line with approved practices
- integrity and team spirit are maintained

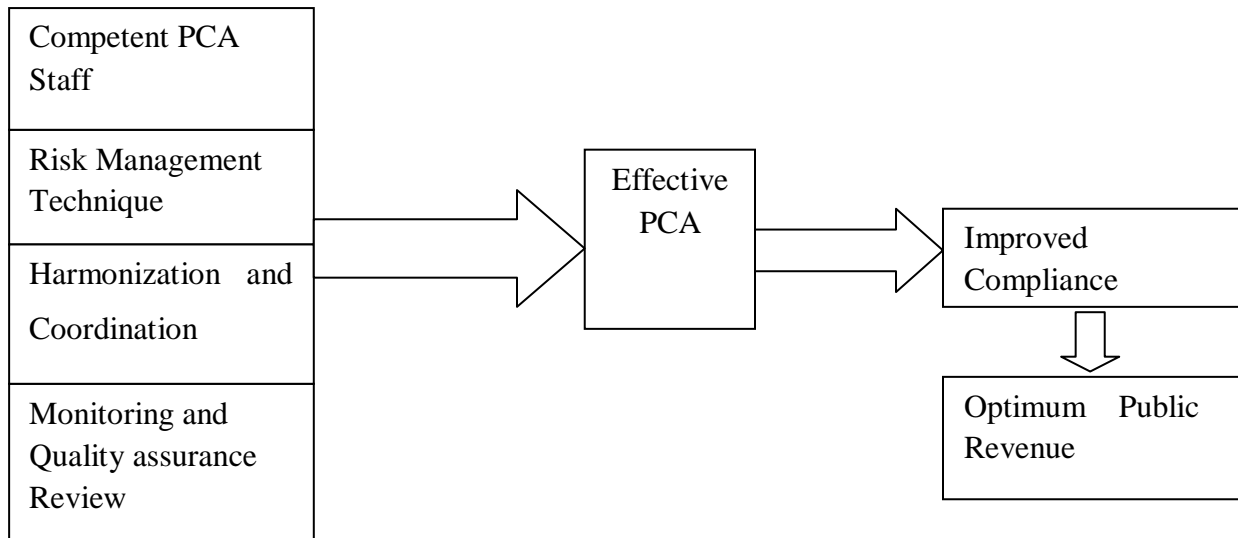
It will also ensure that audits meet the audit standards and the traders rights are fully respected .It will also help to evaluate the cost-benefit analysis i.e. Cost of audit versus revenues recouped. Thus, since it is hardly possible to verify all the indicated issues before the release of goods, PCA is expected to properly review them as per the international standards and best practices (USAID, 2011a).

Based on the provisions of Customs Onsite-Post-Clearance-Audit (OSPCA) manual of the Central Board of Excise & Customs in India, PCA shall put in place a suitable monitoring arrangement to review the progress and performance of PCA and identify audit gaps regularly so as to bring comprehensiveness and efficiency in its operations. It further recommends that the purpose of enhancing the effectiveness of PCA, the Audit department shall examine and review on selective basis 10% of the Audit Reports to see whether the audit has been conducted as per

prescribed procedure. In addition , conducting quality assurance not only ensures auditors acts whether it is in accordance with law and principles out lined in the taxpayer charter but also helps to take corrective measures for improper execution of PCA(OSPCA, 2011).

A Conceptual framework that portrays the research areas addressed by this study is shown in Figure 2. Below

Figure 2.2: Conceptual Framework of the Study



Source: Own Construction, 2015 adapted from WCO(2012)

As depicted in Figure 2 above, the overall aim of any customs post clearance audit particularly that of a developing economy is to protect revenue. Competent staff, risk based control, harmonization of audits and coordination of joint audits, and then quality assurance review of audit outcomes are among the major enabling factors for effective PCA that ultimately result in optimum public revenue.

## 2.2. Empirical Review

### 2.2.1. Quality Assurance Mechanisms for Post Clearance Audit Outcomes in India

Most customs administrations have their own experience and approach to PCA program design and implementation. With regard to program evaluation, the Central Board of Excise and Customs (India) has put in place a suitable monitoring arrangement to review the progress and performance of PCA and to identify audit gaps regularly so as to bring comprehensiveness and efficiency in its operations. For the purpose of enhancing the effectiveness of PCA, the Audit department shall examine and review on selective basis 10% of the audit reports or outcomes to see whether the audit has been conducted as per prescribed procedure (OSPCA, 2011).

### 2.2.2. The Experience of Cambodia in Administering Training and Coordination in PCA

To enhance Customs training and professionalism in the area of Post Clearance Audit, The General Department of Customs and Excise of Cambodia (GDCE) conducts further training of officers under the technical assistance provided by JICA and Japanese Customs. Under sponsorship from Customs and Tariff Bureau of Japan, a group of 15 PCA trained officers has been established to be trainers in the area of PCA. This Group was provided with additional training courses both in locally and in Japan by Japanese Customs.

The headquarters of GDCE, is also responsible for the overall management and conduct of the post clearance audit program including; developing the procedures and manuals for operation of the program, preparing annual audit plans based on selectivity criteria, providing direction and guidance to the PCA units operating in Branch Offices, coordinating the PCA program with other involved offices such as the Branch Offices and investigation offices (GDCE, 2008).

### 2.2.3. Korea's Experience of PCA

In July 1996, the Korea Customs Service (KCS) introduced the Post-Clearance Audit to deal with the rapid increase in the volume of imports and exports, and to expedite customs clearance procedures. Under this new audit system, imported goods are immediately cleared after Customs Officials check basic import declaration documents (e.g., invoice and B/L) in conjunction with payment of duties and taxes by the importers. The accuracy of the amount of duties and taxes paid is checked after the clearance. To effectively utilize this new system, KCS established the

Audit Bureau, whose main responsibility is to prevent customs duty and tax evasions as well as to detect false declarations by traders. 88% of approximately 4 million import declarations submitted each year underwent Post-Clearance Audit. As a consequence, there was a sharp decline in the time taken for customs clearance, which has also contributed to cost savings for businesses as well as for the government (USAID, 2011b).

In addition, KCS' Post Audit Teams detected violations such as tax evasions or false declarations, bringing in about US\$100 million in additional revenues in 2001, and approximately US\$480 million in 2004, which in return motivated importers to more carefully and accurately declare their goods. Furthermore, based on KCS' experience, it is noted that the Post-Clearance Audit system is one of the effective means to facilitate clearance procedure that does not require significant investment in IT infrastructure or additional manpower (WTO, 2005).

From the Korean experience we can understand that Post Clearance Audit play greater role in both trade facilitation.

#### 2.2.4. The East African Community (EAC) PCA strategy

The ECA customs union includes five Revenue Authority such as the Revenue Authority of Brundi, the Revenue Authority of Kenya, the Revenue Authority of Tanzanian, the Revenue Authority of Rwanda and the Revenue Authority of Uganda. The ECA Secretariat set out guidelines on implementation of the ECA customs post clearance Audits in order to verify taxpayers' compliance with provisions of the EAC customs Management Act 2004. The manual spells out in detail the process of conducting Customs Post Clearance Audit. This manual has been developed to enable uniform interpretation and application of customs post clearance audit provisions in the Community. It is designed to assist Customs officers and other officers involved in Customs Post Clearance Audit (EAE,2012)

The EAC (2012) also spell out the following possible performance indicators for the effective implementation of the standard operating procedures of PCA

- Number of risk-based audits conducted in a given period
- Level of compliance to EAC PCA standard

- Number of risk profiles generated from PCA audit data
- Revenue released from audit
- Proportion of green and blue transactions in a given period
- Number of risk-based enforcement interventions registered in a given period

#### 2.2.5. The Ethiopian Experience of Post Clearance Audit Implementation

The Ethiopian Revenues and Customs Authority first adopted a Post Clearance Audit policy in 2010. In effect, a detailed operational guideline or manual for PCA was developed by ERCA in October 2013. This Post Clearance Audit manual is to a great extent consistent with the international standards and best practices for post clearance audit programs. It provides comprehensive and detailed operational guidelines and instructions for the implementation of PCA program. However, harmonization and coordination of audits with other respective departments, and review of PCA outcomes are not clearly and adequately outlined in the manual.

The training policies and procedures, the auditing standards, and the criteria for audit case selection adopted for the purpose of PCA implementation in ERCA (2013) are provided below.

- Training Policy

PCA should be carried out by professionally trained officers. Therefore, Ethiopian Revenues and customs authority should establish a series of training sessions to enable the assigned personnel to not only acquire the minimum knowledge and skill but also enhance them to a higher level. In consideration of high specialty required for auditors and rapid transfiguration of business environment, the training for the customs personnel should take place in two phases: initial training for new appointees; and continuous training for in-service auditors.

Customs administrations should be committed to providing auditors with the levels of training necessary to equip them to perform their duties. All auditors need a range of general skills relevant to the task of auditing. These skills include: Accounting techniques and principles, based on Generally Accepted Accounting Principles (GAAP); Knowledge of auditing standards and procedures; Familiarity with customs laws and regulations; General knowledge of customs procedures (valuation, classification, origin, etc.); Knowledge of computer-based accounting

systems; Commercial awareness and knowledge of business strategies in international trade including banking procedure.

- Ethical Standards for Auditors

Besides the code of conducts of all customs employees stipulated in Regulation No.155/2000 (FDRE, 2008), Post Clearance auditors must also maintain the ethical principles such as integrity, independence, confidentiality, competency and equality.

- Selection of Audit Case

The selection of clients for audit shall be as a result of risk profiling. General risk indicators/parameters used by PCA in order to target high risk companies or persons include profile of traders, trade volume, past records, and intelligence. There are also specific risk indicators corresponding to each of these general indicators. However, there is no automated risk based audit in the indicated Branch Offices for the purpose of PCA.

Recently, a new customs law, Proclamation No. 859/2014, was adopted and has entered into force since January 2014. The new customs proclamation provides the undertaking of customs post clearance control as it is promulgated on Article 121 of the proclamation. It also sets out a maximum of five years for carrying out a post clearance audit while in the previous customs legislation it was a maximum of ten years. This provision is the fundamental change incorporated in the new proclamation concerning customs post clearance audit. Operational guidelines and procedures in line with this new proclamation are being prepared by the headquarters for post clearance audit and for other customs procedures.

To sum up, ERCA has adopted a PCA policy that promotes professionalism, ethical standards for auditors, and application of risk management techniques. This implies that ERCA enhances professionalism in the implementation of PCA programs.

With regard to the implementation of the PCA policy in ERCA, a recent study by Atsibha (2014) was conducted on Mekele Customs Branch Office pointed out that competency of auditors, risk management technique and transparency and predictability in legal frameworks have significant

impact on the performance of customs and tax audit. In the case of Ethiopia, to the knowledge of the researcher, there is no single study except the indicated one on customs Post Clearance Audit.

Although the above study is conducted on post clearance audit, it demands to exclusively customize or postulate it to the case of Addis Ababa Kality and Modjo Dry Port Customs Branch Offices of ERCA. In addition, whether joint audit procedures are established and well coordinated to maintain efficiency and consistency, or whether there exist any quality assurance review mechanisms to evaluate the outcomes of post clearance audits are crucial issues unaddressed in the previous study. Thus, this study examined the implementation gaps with respect to harmonization of audits and review of audit outcomes.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1. Description of the Study Area**

The Ethiopian Revenues and Customs Authority (ERCA), headquarters located in Addis Ababa (the capital City of Ethiopia), was established in 2008. ERCA has fifteen Branch Office throughout different regions of the country. Addis Ababa Kality Customs Branch office (found in Addis Ababa) and Mojo Dry Port Customs Branch Office (found in Oromia region, about 70km away from Addis Ababa to south east) are among the largest Customs Branch Offices in terms of transaction and revenue contribution. Indeed, as per the annual reports of ERCA in 2013 and 2014, the two Branch Offices jointly contributed over 75% of the total revenue collected through all customs Branch Office in the last two years. The indicated Branch Offices consist of respective PCA unit with common objectives of ensuring voluntary compliance and deterring non-compliance through effective and efficient post clearance audit program.

### **3.2. Type and Sources of Data**

All research can be sorted into two categories: primary sources and secondary sources. Primary sources are those created by direct observation. They provide facts and viewpoints that may not be available from other sources. The writers were participants or observers in the events they describe. Primary sources include: surveys, statistics, letters, interviews, autobiographies, diaries, eyewitness accounts, etc. Secondary sources were written by people with indirect knowledge. These writers relied on primary sources or other secondary sources for their information. Secondary sources include: abstracts, almanacs, biographies, book reviews, books written by nonparticipants, critical analyses, encyclopedias, explanations, government documents, indexes, interpretations, literary criticism, textbooks, web pages etc.(Rozakis, 2007).

In this study both the primary and secondary data were used. The data were collected from two customs offices and from the offices of clearing agents, importers, and/or exporters through structured questionnaires, structured interviews, semi-structured interviews, unstructured interviews and field observations

### 3.3 Method of Data Collection

Three kinds of primary data collection tools were employed. These were questionnaires, interviews and field observations.

- Questionnaire

To collect necessary information from the sample respondents, questionnaires containing both open-ended and closed ended types of questions were prepared and distributed to PCA auditors and to clearing agents. Both questionnaires were prepared in English.

- Interviews

To extract detailed information that can address the research questions, structured and semi structured interviews were carried out through face-to-face contact with selected management officials. These interview questions were prepared to senior officials of the PCA departments and to purposively selected management members of other departments in order to collect more relevant data. Unstructured interviews were also conducted to selected importers and exporters to supplement the responses of the customs clearing agents.

- Field Observation

Field observation often helps the researcher to define basic background information necessary to frame a hypothesis and to isolate independent and dependent variables. Perhaps the most noteworthy advantage of field observation is that the studies takes place in the natural setting of the activity being observed and can thus provide data reach in detail and subtlety (Tayie, 2005). Beyond observing the current audit practices, the opportunity to work in Addis Ababa Kality Customs Branch Office from 2008 to 2013 management positions enabled the researcher to understand the persistent challenges of the PCA unit.

The secondary sources of data were collected from various internet sources, proclamations and magazines, policy manuals, journals, and from different published and unpublished reports. Considering the unavailability of sufficient data and the shortage of prior researches in the area of customs post clearance audit in Ethiopia," Triangulation" method was employed.

### 3.3.1. Research Design and Approach

A research design refers to the many ways in which research can be conducted to answer the question being asked. For example, descriptive research design is employed in those studies which are concerned with describing the characteristics of a particular individual, or of a group. It describes the nature of situation as it exists at the time of study as well as to explore the cause of particular phenomena (Kothari, 2004). Thus, since the purpose of this research was to assess the current practices of Post Clearance Audit, the descriptive research design is employed for data analysis.

Studies might employ either quantitative or qualitative research approach or mixed approach. A quantitative research approach employs strategies of inquiry such as experiments and surveys, and collects information using preset standardized instruments that can generate relevant statistical data. Qualitative research approach is one in which the investigator often makes knowledge claims based primarily on the multiple meanings of individual experiences, socially and historically constructed meanings, participation in issues, collaboration or change oriented with an intent of developing a theory or pattern (Creswell, J.,2002). As it involves measurements and systematic statistical analysis on one hand and it involves interviews and observations without formal measurement on the other hand, this research combines both approaches to address the purpose of the study.

### 3.3.2. Sample Size

Due to fewer number of PCA staff members in both Customs Branch Offices, the entire population (census) instead of sample was considered for the study. This consisted of the PCA staff (excluding data encoders) in Addis Ababa Kality and Modjo Dry Port Customs Branch Offices which consisted of 34 PCA staff members, of which 24 from Addis Ababa Kality and 10 from Modjo Dry Port Customs Branch Offices.

Similarly, a population of the 74 management officials in both Branch Offices was considered to select 8 officials using purposive sampling to extract detailed information from experience and exposure.

In addition, the population also consisted of 114 customs clearing agents for which the customs declarations they lodged were subjected to post clearance audit in the current semiannual Ethiopian fiscal year by the indicated offices. Thus, samples were selected from the population of 114 customs clearing agents and the sample size was determined using the following procedures.

To conduct the study, personal judgment of the researcher at 95% confidence level and a sampling error of 5% was assumed. The Z-statistics value for 95%, i.e 1.96, and the estimate of a target population (P) was taken with an incidence rate of 0.5 (50%). Since previous information about the population parameter or standard deviation was lacking for the variable under consideration, the formula for finite population (Kothari, 2004), was considered as shown below.

For finite population,  $N < 10,000$  we have

$$n = \frac{z^2 pq N}{e^2 (N-1) + z^2 pq}$$

Where  $N =$  Population

$n =$  Sample size

$e =$  Sample error at (5%)

$z =$  the 'z' value at confidence level of 95%=1.96

$P =$  the proportion of Defective 0.5 and

$q = 1 - P = 0.5$

$$n = \underline{384}$$

Then the final sample size,  $f_n$  is

$$\begin{aligned} f_n &= n / [1 + n/N] \\ &= 384 / (1 + 384/114) \\ &= \underline{88} \end{aligned}$$

Therefore, the sample size from the customs clearing agents category is 88, which is approximately equal to 77% of the population suitable for analysis.

### 3.3.3. Sampling Technique

A sample is a subset of the population that is taken representative of the entire population. The two common sampling techniques are probability sampling and non-probability sampling. A probability sample is selected according to mathematical guidelines where by the chance for selection for each unit is known. A typical example of such a probability sampling technique is random probability sampling. The guiding principle behind this technique is that each element must have an equal and nonzero chance of being selected. A non-probability sample does not follow the guidelines of mathematical probability. A purposive sampling is an example of non-probability sampling technique. It includes subjects selected on the basis of specific characteristics or qualities and eliminates those who fail to meet these criteria. Likewise, in purposive sampling, the researcher specifies the characteristics of a population of interest and then tries to locate individuals who have those characteristics to address the objectives of the study (Tayie, 2005).

Accordingly, this study used both probability and non-probability sampling techniques. Simple random sampling (a probability sampling technique) was used to select the samples from the clearing agents category that were subjected to audit in the current semiannual Ethiopian fiscal year. On the other hand, since the total number of PCA staff members in the two Branch Offices is only 34, then the whole population was considered for the study. The samples from management members were selected based on purposive sampling technique in order to capture more relevant and greater depth of information so as to meet the purpose of the study.

### 3.4. Data Analysis

Computer applications of SPSS (21version) software package in combination with excel spreadsheets were used for data analysis

## **CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS OF FINDINGS**

### **4.1. Response Rate**

A total of 122 questionnaires were prepared and out of which 34 were distributed to respective post clearance audit staffs and 88 were distributed to customs clearing agents. Fortunately all the questionnaires distributed to the PCA staffs were collected successfully. But, among the 88 questionnaires distributed to customs clearing agents, only 84 were returned representing about 92 percent of such questionnaires. In addition, structured and semi-structured interviews were held with respective management officials in both Branch Offices. Unstructured interviews were also conducted with some importers/exporters.

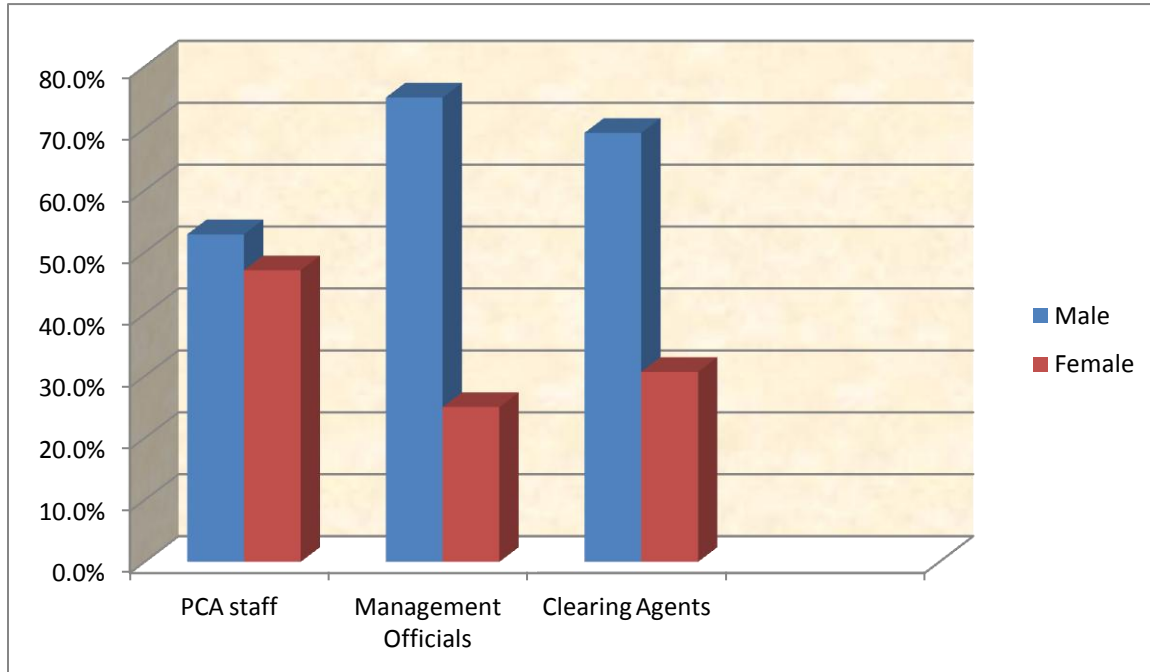
### **4.2. Demographic Characteristics of the Respondents**

In this section information related to gender, educational background, work experience and current occupation of the respondents are presented and analyzed with the help of tables and figures.

#### **4.2.1. Gender Distribution of Respondents**

The distribution of gender for all sample categories is show in Figure 4.1 below.

Figure 4.1: Gender Distribution of Respondents



Source: Survey result, 2015

As shown in Figure 4.1 the distribution of PCA staff with respect to gender in the two Branch Offices have opposite characteristics while there is close proportion b/n males (53%) and females (47%) in overall consideration of the two Branch Offices. On the other hand, the male respondents were taking the larger proportion respective of the samples taken from the management officials and from the customs clearing agents category. Even though there was significant numerical difference in gender for some categories of the respondents, the study is not based on a particular gender.

#### 4.2.2. Education Level of Respondents

Since well qualified and competent professionals are crucial to the success of institutional objectives it was necessary to assess the educational qualification of the respondents. Table 4.1., depicts the education level of the respondents in each category.

Table 4.1: Distribution of Respondents by Education Level

Level	PCA staff			Customs Management Officials			Clearing Agents		
	F	%	Cum.F	F	%	Cum.F	F	%	Cum.F
Diploma	-	-	-	-	-	-	21	25	25
B.A/B.Sc	33	97	97	5	63	63	54	64	89
M.A/M.Sc	1	3	100	3	37	100	9	11	100
Total	34	100		8	100		84	100	

Source: Survey resuly, 2015

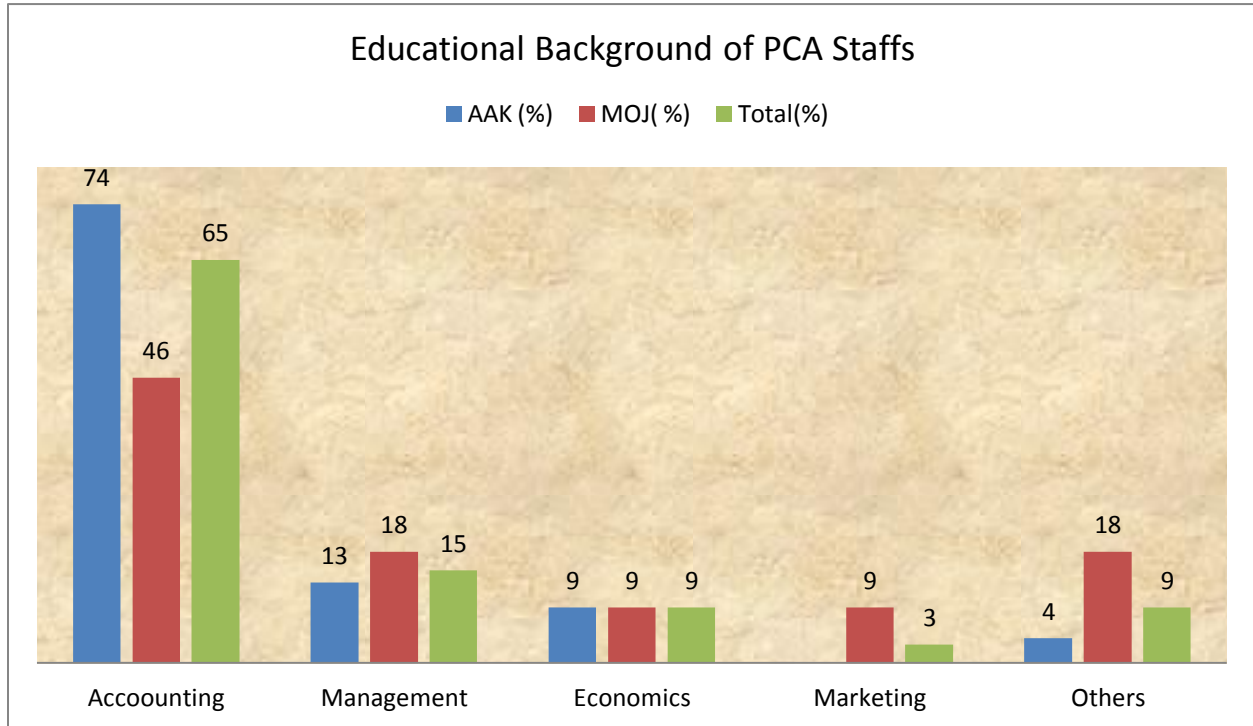
Table 4.1 above illustrates that majority of the respondents in each category are B.A/B.Sc degree holders. The EAC outlines that Customs Post Clearance Audit officers should be trained and equipped with necessary skills and tools in order to perform their duties effectively and efficiently (EAC, 2012). Thus, referring to the above table (Table 2), each member of the PCA staff possesses a minimum qualification (B.A/B.Sc degree) consistent with the job specification in the authority and also with the guideline suggested by USAID (2011b). In other words, their educational qualifications for the job are excellent. Therefore, the recruitment of auditors in ERCA meet the international standards set by the USAID as far as educational qualification level is concerned.

#### 4.2.3. Distribution of the PCA Staffs by Educational Background

According to USAID (2011b), a PCA specialist should have a strong analytical background in accounting. But technical expertise is the crucial issue. Figure 4.2 below shows the distribution of the educational background of the PCA staff members.



Figure 4.2: The Distribution of the Educational Background of the PCA Staff



Where; AAK - Addis Ababa Kality Branch Office

MOJ - Mojo Dry Port Branch Office

Source: Survey result, 2015

Figure 4.2 shows that the majority (65%) of the PCA staff has educational background in accounting. Although the combination of the indicated academic background is important the non-accounting majors are required to have strong analytical skills in accounting in order to handle today's sophisticated international transaction systems.

#### 4.2.4. Professional Experience of the PCA staff members

Beyond their educational background, the PCA officers should have proven expertise in accounting principles and techniques (GAAP), and a minimum of two years customs technical expertise such as in valuation and tariff classification (USAID, 2011b).

In view of this international standard, work experience in PCA is summarized in Table 4.2 below.

Table 4.2: Percentage Proportion in Professional Experience of the PCA Staff

Work Experience		Customs Branch Office		Total (%)
		Addis Ababa Kality (%)	Mojo Dry Port (%)	
In non-PCA area	Accounting/ Auditing	26	36	29
	Customs Operations	4	-	3
In PCA	< 1 year	44	46	44
	1-3 years	13	46	24
	b/n 3 and 5 years	35	9	27
	> 5 years	9	-	6

Source: Survey result, 2015

The above table (Table 4.2) shows that only about 29% of the PCA staff members have prior experience in accounting or in financial auditing. It is also analyzed from the data collected that from the indicated 29% only about 15% have more than one year of experience. It indicates that nearly 85% of the PCA staff members have no or less than one year of experience in accounting or auditing. Similarly, the above table also reveals that just only one person, representing 3% of the PCA staff, has a previous work experience in the customs operations which is very much inconsistent with the USAID (2011) recommendation that a PCA specialist should have at least two years of experience in customs operational areas. Table 3 further indicates that about 44% of the PCA staff members in the two Branch Offices have less than one year of experience. In addition, it can also be observed from the table that about 57% of Addis Ababa Kality Customs Branch and about 91% of Mojo Dry Port Customs Branch PCA staff have a maximum

experience of 3 years in PCA. This implies that the Mojo Branch is staffed with low experienced employees than that of Kality Branch.

#### 4.2.5. Current Job Occupation in the PCA Departments

The current job occupations in PCA units of both Branch Offices were compared, in Table 4.3 below, with that of the standard occupations. The standard occupations in this context refer to the PCA positions as prescribed in the organizational structure manual of ERCA

Table 4.3: Current Versus Standard Job Occupation in PCA

PCA Position	Addis Ababa Kality Customs			Mojo Dry Port Customs		
	Standard qty.	Actual Qty.	Coverage* (%)	Standard Qty.	Actual Qty.	*Coverage (%)
Junior Auditor	18	6	33	18	3	17
Auditor	33	6	18	30	4	13
Senior Auditor	16	7	44	12	2	17
Total	67	19	28	60	9	15

Source: Survey result, 2015 and ERCA Manual (ERCA, 2010b)

\* Actual to Standard ratio

The above table (Table 4 ) depicts that only 28% and 15% of the PCA positions in Addis Ababa Kality Customs Branch Office and Mojo Dry Port Customs Branch Office respectively are actually filled in. In other words, about 72% of the PCA positions in Kality Customs and about 85% of similar positions in Mojo Customs are vacant positions. Considering both offices, the actual proportion of coverage is 22%. This clearly shows that there is a critical gap with respect to the deployment of adequate number of customs auditors as per the standard and the work load in the Branch Offices.

### 4.3. Professional Skill and Competency of the PCA Staff Members

Customs PCA controls must be carried out by professionally qualified and trained Customs personnel. With the increased use of electronic record-keeping and the sophistication of global trade, the need for higher standards of training becomes increasingly important (USAID, 2011a). The audit staffs were asked to describe the training packages they so far received to analyze the appropriateness and the adequacy of the trainings towards competency.

#### 4.3.1. Technical Training Modules

In order to learn the extent of provision of technical training packages to the PCA staffs, the audit staffs were asked to describe the training packages they so far received. The extent of reception of such technical training courses by PCA staff of Addis Ababa Kality and Mojo Dry Port Customs Branch Offices are described in Table 5 below.

Table 4.4: Technical Training Provision to the PCA Staff

Technical Training courses	Customs Branch Office					
	Addis Ababa Kality		Mojo Dry Port		Total	
	Freq.	%	Freq.	%	Freq.	%
Auditing techniques	6	26	2	18	8	24
Valuation	10	44	5	42	15	44
Classification	15	65	5	46	20	59
Rule of origin	8	35	3	27	11	32
ASYCUDA++	8	32	3	24	11	32
GAAPs	-	-	-	-	-	-
Computerized Accounting	6	26	-	-	6	18
Auditing Standards	2	9	-	-	2	6

Source: Survey result, 2015

The above table shows that among the core specialized courses required by PCA auditors tariff classification, customs valuation, rules of origin and ASYCUDA ++ were relatively better offered than the remaining courses to PCA staff members of in both Branch Offices. It is also revealed that all of the staff members never received any training in accounting techniques and

principles (GAAPs). Although 65% of the staff members have educational background in accounting, such training course is not offered even to those members recruited from non-accounting streams. In practice, any PCA auditor shall check whether the accounting systems adopted by the auditees are in conformity with the Generally Accepted Accounting Principles and have maintained all the relevant records.

Similarly, about 94% % of the staff members didn't receive trainings related to auditing standards and procedures which is inconsistent with the WCO frame work of performing effective PCA (WCO, 2012).

It was also known from HR records in Addis Ababa Kality Customs Branch Office that often the duration for customs training courses is about 2-3 days for valuation, 2 days for tariff classification and 1 day for rule of origin. However, according to the WCO (2012) recommendation, all auditors need a range of skills relevant to the task of auditing. Such skills include general knowledge of auditing techniques, accounting techniques and principles, based on Generally Accepted Accounting Principles (GAAP), familiarity with customs procedures such as valuation, classification, origin, etc., understanding of auditing standards and procedures, and also knowledge of computer-based accounting systems. It is important that auditors have a comprehensive understanding of these key areas. It is estimated that delivery of the H.S. classification, customs valuation and trade agreement courses would take approximately six weeks (two weeks per course).

Regarding the training courses in auditing techniques and procedures, the first course would cover customs post-clearance desk audits and the second course would cover customs post-clearance field audits. Then, the third course would cover auditing of trader IT systems. These courses would be delivered over a six-month period as auditors obtain experience in conducting desk audits before attempting field audits. The ASYCUDA training would allow PCA staff to efficiently and effectively retrieve declaration data and produce statistical reports, in order to analyze and select high-risk traders and particular high-risk transactions to audit (WCO, 2012).

Indeed, the PCA manual in ERCA (2010a), also underscored that PCA should be carried out by professionally trained officers. The manual further prescribes that Ethiopian Revenues and

Customs Authority should establish a series of training sessions to enable the assigned personnel to not only acquire the minimum knowledge and skill but also enhance them to a higher level. But no form of technical training except the induction training is provided to auditors. Even the trainers are not from PCA.

#### 4.3.2. Competency of the PCA Staff

PCA requires an understanding of how a business operates and how this relates to its transactions with the broader spectrum of regulatory agencies. There is also an expectation from the trading community that the skill level of auditors is of an appropriately high standard, given that the PCA process is designed to review their business systems and internal controls, assess the effectiveness of their compliance measures and make recommendations on enhancements or changes in order to improve future compliance. Thus, PCA can have a significant impact on a trader's business and should be conducted with a high degree of professionalism (World Bank, 2013).

The PCA staffs were provided with some questions , as shown in Table 6 below, in order to understand their views on the availability of skill enhancement practices and logistic to the respective PCA staff.

Table 4.5: Availability of Skill Enhancement Initiatives and Proper Logistics in PCA (Responses of the PCA staff)

Statement	Responses by PCA staff (%)					Mean Value
	SA	A	N	D	SD	
PCA staff is provided with appropriate and adequate training on customs laws, regulations and procedures	15 (5)*	47 (16)*	21 (7)*	15 (5)*	3 (1)*	3.0
PCA auditors continuously receive a variety of technical training packages for enhancing their knowledge and skill	3 (1)*	6 (2)*	15 (5)*	53 (18)*	24 (8)*	2.1
PCA auditors have comprehensive understanding and proven ability in dealing with customs valuation issues such as; related party transaction, treatment of royalty and license fees ,transfer pricing methods etc.	-	6 (2)*	21 (7)*	62 (21)*	12 (4)*	2.2
PCA staff is equipped with proper logistics such as; convenient office, , vehicles/ vehicle allowances, laptops for field auditors, and internet access	-	-	-	35 (12)*	65 (22)*	1.3

Source: Survey result, 2015

\*Frequency

Table 4.5 shows that about 60% of the PCA staff in the indicated Branch Offices have received an appropriate and adequate training on customs laws and procedures but about 17% of the staff members are not satisfied with the relevance and adequacy of such training. However, the mean value (3.0) lies on the neutral or indifferent option. On the other hand, above 76% of the staff members in the two Branch Offices agreed that technical customs training courses are not continuously offered. The semiannual performance reports of the respective departments in both Branch Offices also underscored the impacts of lack of technical training on the performance of the departments. As it was found earlier in Table 4.4, at least 44% of the total staff members attended technical training in customs valuation. However, over 70% of the total staff members agreed (Table 4.5) that they are not familiar with core valuation issues such as; treatment of royalty and license fees, transfer pricing methods etc. This implies that the technical training offered to auditors is not only inadequate and inappropriate but it also lacks the required depth and continuity.

The customs clearing agents as regular customers were also asked questions related to the performance of PCA staff in order to evaluate their views. Table 4.6 below summarizes the responses of the customs clearing agents concerning the knowledge and skill of the PCA staff.

Table 4.6: Responses of Clearing Agents on the level of Competence of the PCA Staff

Parameter	Rate (%)			
	Excellent	Very good	Good	Poor
Auditors understanding of customs laws, regulations and procedures	1 (1) *	6 (5) *	38 (32) *	55 (46) *
The knowledge and skill of auditors on customs valuation, tariff classification and rule of origin	4 (3) *	12 (10) *	37 (31) *	48 (40) *
Acquisition of knowledge and experience by auditors on accounting techniques and principles(GAAPs)	-	5 (4) *	33 (28) *	62 (52) *
The commitment and motivation of the PCA staff at work	1 (1) *	2 (2) *	17 (14) *	80 (67) *
The availability of appropriate logistics in the PCA departments	-	2 (2) *	27 (23) *	71 (59) *
The extent of harmonization of PCA with domestic tax audit	1 (1) *	2 (2) *	17 (14) *	80 (67) *
The level of coordination of PCA with respective departments of other customs Branch Offices(joint audit)	-	2 (2) *	30 (25) *	68 (57) *
The status of audit review for quality assurance	-	3 (3) *	27 (23) *	70 (58) *

Source: Survey result, 2015

\*Frequency

As shown in Table 4.6 above, majority of the clearing agents agree that the PCA staffs lack the required knowledge and skill not only on customs laws and procedures but also on operational and accounting techniques. Moreover, about 80% of the respondents agree that the PCA staff members in the two Branch Offices are not motivated with their jobs. According to the responses forwarded by the importers and exporters to the interview questions, many customs officers including auditors in both Branch Offices have low interest towards their jobs. Interviewees also added that some PCA auditors make a solicitation for jobs in the auditees' offices.

Regarding the logistics in PCA staffs, 100% of the staff members revealed the absence of proper logistics in the respective PCA units. In addition, nearly 68% of the respondents in the clearing agents category asserted poor availability of logistics in PCA departments. Even some respondents, importers, told that PCA sometimes creates a burden on auditees in temporarily



providing computers to PCA for audit purposes. Furthermore, the semiannual performance report of the respective departments in both Branch Offices (ERCA, 2014a) indicates that there was lack of trained and experienced auditors in the current fiscal year which influenced the performance of the respective PCA units. Particularly, the report of the PCA unit in Addis Ababa Kality Branch highlighted that inadequate supply of vehicles has been an obstacle to undertake field audits as per the intended plan. Still, it was also learnt from the response to open ended questionnaires of audit staff that the PCA unit is an unacknowledged section usually given no or little attention by management. Due to this factor auditors lose their motivation and ultimately leave their jobs.

#### 4.3.3. Ethical Standards of PCA Officers

A survey on ethical standards of auditors was also conducted in order to evaluate the behavior of auditors with respect to international auditing standard.

Table 4.7: Issues Related to Ethical Standards of PCA Officers (Responses of Clearing Agents)

Statement	Responses of Clearing Agents (%)					Mean Value
	SA	A	N	D	SD	
The PCA auditors perform their work with honesty, diligence and responsibility (integrity)	5 (4) *	41 (34) *	13 (11) *	38 (32) *	3 (3) *	3.1
PCA Auditors take maximum care of the auditee's property if usage of such is necessary(Due professional care)	7 (6) *	43 (36) *	11 (9) *	37 (31) *	2 (2) *	3.2
Post clearance Audits are executed in a transparent manner(transparentcy)	6 (5) *	37 (31) *	12 (10) *	42 (35) *	3 (3) *	3.0
PCA Auditors keep the secrecy and privacy of auditees' business information acquired in the course of their duty(confidentiality)	-	5 (4) *	80 (67) *	10 (9) *	5 (4) *	2.9
Auditors perform audits in unbiased and impartial manner(objectivity)	4 (3) *	31 (26) *	12 (10) *	50 (42) *	3 (3) *	2.8

Source: Survey result, 2015

\*Frequency

Based on the data shown in Table 4.7, about 42 % (on average) of the respondents disagree on the idea that auditors exhibit core auditing standards such as integrity, due professional care and

transparency in the course of audit. Keeping all other factors constant, this may imply that auditors are not familiar with the auditing standards as it was illustrated earlier in Table 4.4.

On the other hand, about 80% of the respondents have neutral idea on auditors' confidentiality of the information acquired during audit. Auditors must keep the secrecy of both auditees and customs.

In addition, more than 50% of the respondents disagree on the objectivity of the post clearance audit performed in the two Branch Offices. This implies that the audit activity in the indicated Branch Offices is influenced by some form of judgmental bias or prejudice. The auditors performing post-clearance controls examine every element, in favor of or against the auditee, related to the Customs legislation (WCO, 2012).

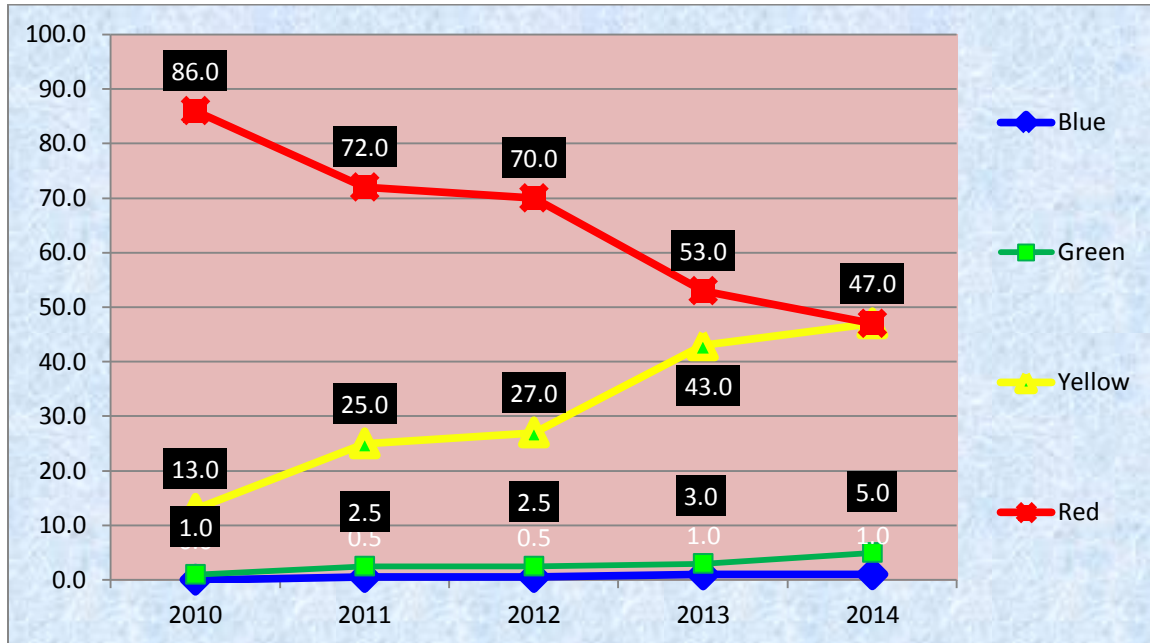
Finally, a significant proportion (25% on average) of the respondents was uncertain about the ethical behavior of PCA staff members. This perhaps implies either respondents have no sufficient information as to what are auditee's rights and duties or further research is needed before drawing a conclusion.

#### 4.4. Basis for Selection of Auditees

Implementation of post clearance audit is part of the risk management strategy. Thus the selection of persons/companies for audit should be based on risk profiles (USAID, 2011a). The post clearance policy in ERCA (2013) also enhances the adoption of risk management techniques for effective post clearance audit. In fact, the policy underlines that the selection of clients for audit shall be as a result of risk profiling.

The increasing demand towards trade facilitation that reduces customs intervention on physical inspection during clearance proportionately increases the activities of PCA units (WCO, 2012). In response to this global pressure, ERCA has been implementing risk management techniques for clearance purpose since 2010. Figure 4.3 shown below indicates the risk channeling trend at clearance level in Addis Kality Customs Branch Office in the years, 2010-2014

Figure 4.3: The Risk Channeling Trend in Addis Ababa Kality Customs Branch Office



Source: Annual report of ERCA from 2010 to 2014 (2014b)

The above figure (Figure 4.3) illustrates that customs intervention on physical examination (Red channel) of imported goods declined from 86% (in 2010) to 47% (in 2014) of the total declarations assessed in the Branch Office. It also indicates that the percentages of the remaining channels were increasing each year. This means that the PCA intervention is expected to increase proportionally. Unfortunately, no compiled data of audited documents sorted with risk channels was found in Addis Ababa Kality and Mojo Dry Port Customs Branch Offices. The risk channeling rates for international best practices indicate 10-15% red, 20-40% yellow, and 45-70% green while blue channel is based on countries context (USAID, 2011a, p.37).

As compliance verification through PCA is a prerequisite to implementing an Authorized Economic Operator (AEO) regime. Selective auditing of AEOs (treated with Blue channel customs declarations) would confirm their compliance and eligibility to continue to receive the privileges of the program. Selection of AEOs should be subjected to customs PCA as a matter of priority (USAID, 2011a). In Ethiopia, more than twenty firms are granted AEO status by ERCA

and they are enjoying expedited clearance privileges. However, such privilege is granted to the firms prior to initial compliance audit of their books, records and systems by PCA.

With this view, the staff members under study were asked about the implementation of risk based audit in their respective departments. Table 4.8 shows the percentage of the respondents in the application of risk management to PCA.

Table 4.8 : Issues Related to Risk Management in PCA

Statement	Response Rate (%)					Mean Value
	SA	A	N	D	SD	
PCA is supported with risk management software for risk channeling	-	11.8 (4) *	17.6 (6) *	47.1 (16) *	23.5 (8) *	2.2
PCA has developed its own risk profiles to maintain a database record of high-risk traders, clearing agents, freight forwarders, and other operators	-	-	26.5 (9) *	61.8 (21) *	11.8 (4) *	2.2
PCA has established automated selectivity criteria for identifying high-risk transactions and operators	-	2.9 (1) *	5.9 (2) *	73.5 (25) *	17.6 (6) *	1.9
<i>Blue channel</i> customs declarations selected by ASYCUDA++ are the primary targets for PCA	2.9 (1) *	26.5 (9) *	32.4 (11) *	29.4 (10) *	8.8 (3) *	2.8

Source: Survey result, 2015

\*Frequency

As shown in Table 4.8, above 70% of the PCA staff responded the absence of automated risk channeling, and risk profiling for the selection of persons to be audited. Similarly the majority (38.2%) of the respondents agreed that blue channel declarations (AEOs) are not the primary targets for PCA. However, about 29% of the staff members agree that PCA selects AEOs for audit. Similarly, the average or mean values indicate that most respondent disagree. PCA provides a platform for evaluating continued entitlement to Authorized Economic Operator status, where applicable (WCO, 2012).

Conversely, it is justified from the records that comprehensive audit was not conducted on any company in general and on AEOs in particular during the fiscal year 2014/2015. The PCA officials, in their interview, highlighted that the comprehensive audit was not conducted by the Branch Offices because of the presumption that such audit would be conducted centrally by the head quarter. Moreover, it is also learnt from the semi-annual performance reports of the respective PCA units that risk profiling is not yet implemented in both Branch Offices.

In addition, based on questionnaires, observations, and interviews with officials of the respective PCA units, the basic selection criteria used by the PCA staffs are the volume of transaction, past history, business type, third party information, prohibition or restrictions and etc. Indeed, the selections are made manually and randomly using little or no analysis. Yet the availability of third party information to PCA is found to be very limited where nearly 59% of the respondents rated its availability at poor level. From the interview held with the intelligence team leader in Addis Ababa Kality Branch the information supplied from informants to their team are too often related to duty exemptions.

Besides, the responses provided by the risk management team leaders asserted that risk management techniques in customs are adopted only for clearance procedures but not for post clearance audit purposes. This clearly shows that the basis for selection of audit cases in both departments is not based on risk profiling and risk criteria.

#### 4.5 Harmonization of PCA with Other Departments or Offices

PCA is not a standalone system but one function of the customs organization optimally linked to the other relevant functions. It is recommended that communication channels are established with customs clearance units and other control, risk and enforcement units to share knowledge and information on a particular commercial operator. Also, benefits can be had by exchanging knowledge and information with departments responsible for VAT, excise and direct taxes, to the extent that national legislation allows. In some cases, external support may be necessary to provide the specialist skills. With regard to knowledge of transfer pricing, assistance may be sought from direct tax officials (WCO, 2012).

Table 4.9 : Responses on Issues Related to Harmonization and Coordination

Parameter	Category	Response rate (%)			
		Excellent	Very good	Good	Poor
The Extent of Harmonization of PCA with Domestic Tax Audit	PCA staff	-	-	23.5	76.5
	Customs clearing agents	1.2	2.4	16.7	79.8
The Level of Coordination of PCA with Respective Departments of Other Customs Branch Offices(Joint Audit)	PCA staff	-	5.9	32.4	61.8
	Customs clearing agents	-	2.4	29.8	67.9

Source: Compiled from the Questionnaire, 2015

Table 4.9 presents the level of harmonization of PCA with domestic tax audit and its coordination across respective departments of other Customs Branch Offices. It illustrates that more than 70% of the respondents in each category rated the harmonization level of PCA as poor. Similarly, more than 60% of the respondents in each category rated the coordination of PCA with respective customs departments as poor. An illustrative question, shown in Table 4.10 below, was also provided to the PCA staff members in order to clarify the current practice of auditors.

Table 4.10: Usage of Domestic Tax Returns by PCA staff

Question	Response	Frequency	%
Do you often use domestic tax returns/documents of an auditee to supplement PCA activities?	Yes	10	29.4
	No	24	70.6

Source: Survey result, 2015

Accordingly, about 70% of the audit staff of both Branches revealed that they do not refer to domestic tax returns while performing post clearance audit. PCA records demonstrate that most of the PCA findings in each Branch arise due to under invoicing, misclassification and exclusion of port costs. This may be evidence that most auditors never check the expense receipts and financial statements from the domestic tax returns. To that end, PCA auditors have no access to SIGTAS and domestic tax auditors have no access to ASYCUDA.

Thus, it can be concluded from the data on Table 10 and Table 11 that the level of harmonization of the PCA units under study with domestic tax or across Branches is significantly low. In accordance with the provisions of Article 8(1c) of the WTO (1994) valuation Agreement and Article 96 of Ethiopian Customs Proclamation No. 859/2014 (FDRE, 2014) the determination of the customs value for imported goods includes costs such as royalties, and license fees, directly or indirectly, paid or payable to the seller of the goods as a condition of sale of such goods.

In practice, however, most importers knowingly or unknowingly fail to declare such costs to customs at the time of clearance. But they include the costs while they declare their business these costs to domestic tax departments in order to reduce the amount of the profit income tax. In such cases the auditor should verify if the importer has entered into any royalties/technical knowhow fee/license fees agreement with the related supplier. These fees can be considered for addition to the declared assessable value under the customs valuation rule 10(1) (C). According to the above provision the company is expected to declare such royalty fees to customs and then to pay the required duty and tax before clearance of goods. Article 20 of the Ethiopian Income Tax Proclamation No.286/2002 (FDRE, 2002) provides that deductions shall be allowed for expenses such as royalty fees in the determination of profit income tax.

Hence failure to declare the fees to customs by the importer will result in underpayment of significant amount of customs duty and tax unless customs applies cross verification details from the company's income statements submitted to domestic tax office for the purpose of profit income tax determination. In brief, the survey results indicate that most PCA auditors do not use domestic tax returns to supplement post clearance audit. With the introduction of the valuation system customs will, in most cases, have to accept the value of goods as declared by importers. This will necessitate the creation of an effective post-clearance audit system to verify the value and to detect and prevent fraud (World Bank, 2013).

#### 4.6. Monitoring and Quality Assurance Review of Audit

When the PCA program has begun, systems will be needed to monitor program success. Customs managers must constantly evaluate employees' performance, allocate human and material resources in keeping with workload, implement and monitor procedures, and adjust staffing and work focus in accordance with the data-driven decisions made possible by a PCA program (USAID, 2011a).

To know the existing practice of performance evaluation in PCA, the staff members were asked to their views. Their responses are provided in Table 4.11 below.



Table 4.11 : Monitoring and Review of PCA

Statement	Response rate (%)					Mean Value
	SA	A	N	D	SD	
ERCA has established a monitoring and review mechanism to evaluate the performance of PCA program	-	11.8 (4) *	26.5 (9) *	52.9 (18) *	8.8 (3) *	2.4
ERCA has developed operational guidelines for monitoring and review of PCA	-	14.7 (5) *	29.4 (10) *	50 (17) *	5.9 (2) *	2.5
ERCA has adopted quality assurance testing system for PCA outcomes	-	2.9 (1) *	20.6 (7) *	58.8 (20) *	17.6 (6) *	2.1
ERCA provides feedback to PCA units in response to their performance reports	-	5.9 (2) *	26.5 (9) *	41.2 (14) *	26.5 (9) *	2.1

Source: Survey result, 2015

The results in Table 4.11 shows that above 56% of the PCA staff disagree on whether ERCA has established a monitoring and quality assurance testing mechanism. Again, over 76% of the PCA staff disagrees on whether ERCA has adopted quality assurance review, and about 68% still disagree on whether ERCA provides feedback to PCA units. In addition, the mean value of each variable is below 3 implying that most respondents disagree on the statements. On the other hand, sample respondents from clearing agents were provided with a question related to audit review in order to understand their views on the audit review practice in ERCA. Similarly, the evaluation of the clearing agents on the monitoring and review of audit outcomes is shown in the following table (Table 4.12).

Table 4.12: Clearing Agents on Monitoring on Review Practice in ERCA

Question	Response (%)	
	Yes	No
Have you or your client/customer ever been subjected to reassessment of the post clearance audit outcomes?	-	100

Source: Compiled from the Questionnaire, 2015

Accordingly, Table 4.12 illustrates that none of the respondents were subjected to reassessment or audit review. This implies that there is little or no audit review practice in the authority.

Customs administrations will develop a mechanism to measure, assess and evaluate the success of their post-clearance audit programmes. Cost-benefit analysis must be undertaken regardless of appeals by auditees. Indeed, customs administrations must ensure that all resources are used to their optimum capacity. The head of the PCA unit will be responsible for overseeing the implementation of the PCA process, ensuring it is conducted in accordance with the principles established in the strategy, liaising with other customs departments, managing communication with the private sector, and recruiting experts (World Bank, 2013).

#### 4.7. Major Findings

Customs contemporary trends redirect a fundamental shift in customs control approach from 100% physical inspection to PCA control. These factors pose efficiency and capacity issues in customs post clearance audit control.

All the PCA staff members in Addis Ababa Kality and Modjo Dry Port Customs Branch Offices possess the minimum educational qualification consistent with the position requirement for customs auditors in ERCA. It also meets the minimum qualification requirement that is recommended by various international organizations.

Recommended position descriptions and skill requirements for post clearance audit specialists mainly demand a solid background in accounting or auditing and a minimum of two years experience in customs technical expertise such as specialized experience in valuation,

classification, rules of origin, and inspection. However, the survey results revealed that 85% of the PCA staff members have no or less than one year of experience in accounting or auditing and 97% of the staff members have no previous experience in customs operations.

Significant proportion (44%) of the PCA staff in Addis Ababa Kality Branch and Mojo Dry Port Customs Branch Offices have less than one year of experience in the PCA unit. Particularly, about 91% of the PCA staff in Mojo Dry Port Customs Branch Office have less than three years of experience in PCA. This implies that the Mojo Dry Port Customs Branch of the PCA staff is dominantly staffed with low experienced auditors all having no prior experience in the customs operations.

Regarding training and skill development of the PCA staff, 100% of the staff members never received on-the-job training in accounting techniques and principles (GAAP) and 94% of the staff members didn't receive trainings related to auditing standards and procedures which is inconsistent with the WCO framework of performing effective PCA. In addition, more than 70% (Table 6) of the total staff members are not familiar with core valuation issues such as; treatment of royalty and license fees, related party transaction, transfer pricing etc. But it was also found that 44 % ( Table 4.4) of the total staff members attended technical training in customs valuation. Indeed, the duration for valuation training is often two days while in the international best practice it would take two weeks for this course. Beyond poor training facilities for the PCA staffs, majority of the PCA positions, 85% in Mojo Branch and 78% in Kality Branch, are also not staffed.

Moreover, 100% of the staff members and 68% of sample clearing agents revealed the absence of proper logistics such as dedicated vehicles and laptops for conducting field audits in the respective PCA units.

No comprehensive audit is performed in the last three years while the audit plan in ERCA for comprehensive audit coverage is 5-10% (ERCA, 2010a).

The survey results also provided that above 70% of the PCA staff asserted the absence of automated risk channeling and risk profiling for the selection of persons for audit. Current semiannual reports from both offices also confirmed the absence of automated risk based audit

for the purpose of PCA. The responses of management officials to interview questions also illustrated that no comprehensive audit was performed due to the absence of central selection and coordination mechanisms. As a result, the audits were limited to desk audit, issue audit and field audit.

Moreover, while many AEOs may in fact be highly compliant, there is an urgent need to at least confirm such compliance since international experience has shown far too often that large traders can be involved in fraudulent activities when they realize that no control is being exercised on them, and that the extent of the revenue loss can be significant given the turnover of these companies (USAID, 2011a). In contrast, the survey results particularly audit reports illustrate that AEOs are not among the priority targets for PCA.

The majority (above 60%) of the respondents in each category of respondents (the PCA staff and the clearing agents) viewed that the level of harmonization and coordination of the PCA activities in Addis Ababa Kality and Modjo Dry Port Customs Branch Offices with the domestic tax or across Customs Branch Offices is insignificant. According to the responses of sample respondents of management officials, the harmonization and the coordination is not formally established except that an attempt for joint audit was made among Addis Ababa Kality ,Addis Ababa Airport and Adama Customs Branch Offices before four years.

Furthermore, another key finding of this study is that ERCA hasn't established and practiced a central monitoring and review system for post clearance audit outcomes. This was evidenced by the survey result that none of the sample respondents of the clearing agents were so far subjected to reassessment or audit review (Table 4.12). However, the interview responses indicate that the PCA management at the branch level has the practice to review the audit outcomes.

International best practices provide that customs should not set revenue-based targets for the PCA unit because doing so would create a perverse incentive for customs to conduct excessive audits, and in the worst case scenario, generate opportunities to raise revenue arbitrarily. Because a PCA aims to confirm assumptions about the risk of specific transactions, the measure of success should be expressed in terms of traders' improvements in compliance resulting from more effective control processes, not on the amount of additional revenue collected (USAID,

2011b). But the PCA officials commented on their interview that top management often has the tendency to measure the performance of PCA with the amount of revenue recovered.

Finally, some of the findings of the current study are consistent with that of Atsibha (2014) who found that provision of continuous training and development programs to PCA auditors and application of risk management approach are necessary requirements for the success of post clearance audit program.

## CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

This chapter describes the main conclusions drawn from the study and the possible recommendations for future action.

### 5.1. Conclusions

Based on the findings of the study the following conclusions were drawn

- The PCA staff members in Addis Ababa Kality and Mojo Dry Port Customs Branch Offices lack the necessary skills, competencies and logistics for performing effective post clearance audit so that the depth, standard and coverage of the audit will be compromised. This implies that the current PCA practice in the indicated Branch Offices has execution gaps and potential risks that may result in significant revenue leakage for the authority;
- The PCA manual in ERCA provides comprehensive audit as one of the major audit types and the manual also specified that the audit plan standard for comprehensive audit is 5-10% per year. However, the survey results show that no comprehensive audit was conducted by both Branch Offices since 2012 except that Addis Ababa Kality Customs Branch Office conducted on six companies in 2013/2014. Thus there is inconsistency in implementing comprehensive audit;
- There is no automated risk based system for the selection of audit cases in both Addis Ababa Kality and Modjo Dry Port Customs Branch Offices and that selections are performed manually, using little or no analysis, based on the PCA manual and the experience of the respective PCA officials. However, this manual selection is not only laborious and time consuming but it may also accommodate subjectivity;
- The majority ( above 60%) of the respondents in each category of respondents( the PCA staff and the clearing agents) viewed that the level of harmonization and coordination of the PCA activities in Addis Ababa Kality and Modjo Dry Port Customs Branch Offices with the domestic tax or across customs Branch Offices is poor otherwise in significant. In other words, there is weak harmonization of PCA with domestic tax audit and poor

coordination of PCA with respective Customs Branch Offices which may create burdens on auditees and inefficient utilization of resources for the authority;

- Another key finding of this study is that ERCA hasn't established and practiced a central monitoring and review system for post clearance audit outcomes. This is evidenced by the survey result that none of the sample respondents of the clearing agents were subjected to reassessment or audit review (Table 4.12) through out their career; and
- The USAID (2011a) outlines that selection of AEOs should be subjected to customs PCA as a matter of priority. However, the survey results indicate that AEOs are not the primary targets of PCA and that compliance audit by PCA is not a prerequisite for granting continued privileges;

## 5.2 Recommendations

Despite the efforts of ERCA in developing a comprehensive post clearance audit manual that provides standard operating procedures for conducting effective post clearance audit, the study identifies some discrepancies between policy and implementation or principles and practices. Therefore, based on the conclusions drawn in this study, the researcher forwards the following recommendations for future actions.

- ERCA should ensure that the PCA positions are appropriately and adequately staffed and that the PCA staff is equipped with comprehensive and advanced technical training skills tailored to today's complex international trade transactions and sophisticated accounting systems;
- ERCA should establish a risk management unit within the PCA directorate which is dedicated to risk profile development, central audit case selection and risk analysis for targeting potentially high-risk traders/operators;
- The PCA directorate should initiate, guide and coordinate joint audits of PCA with domestic tax audit and across Customs Branch Offices to detect and deter potential non-compliance;
- ERCA should put in place a review and quality assurance department responsible for undertaking quality assurance testing of PCA outcomes, settlement of disputes between PCA and traders, initiating corrective measures, and providing specialized training courses to the PCA staff across the Customs Branch Offices;
- ERCA should seek out and request knowledge transfer seminars or bench marking initiatives from foreign customs authorities, and recruit the right PCA staff members to share the benefit of proven country experiences on crucial audit issues;
- ERCA should show a more proactive stance and determination to ensure proper implementation the PCA policy measures; and
- Finally, related studies focusing on the impacts of PCA on compliance level are suggested for future research.



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## Annex 1

### St. MARY'S UNIVERSITY DEPARTEMENT OF MBA IN ACCOUNTING AND FINANCE

#### **RESEARCH QUESTIONNAIRE ON “THE CHALLENGES OF POST CLEARANCE AUDIT IN ETHIOPIAN REVENUES AND CUSTOMS AUTHORITY”**

Date -----

Dear respondents,

The purpose of this questionnaire is to collect data for preparing a thesis under the title “**The Challenges of Post Clearance Audit in Ethiopian Revenues and Customs Authority: The Case of Addis Ababa Kality and Mojo Dry Port Customs Branch Offices**” for the partial requirement of MBA in Accounting and finance. The outcomes of this study will contribute to identification of some of the major problems in post clearance audit (PCA) of Ethiopian Revenue and Customs Authority (ERCA) and adoption of corrective measures for the improvement of the operational efficiency of PCA.

This research is intended only for academic purpose authorized by the St. Mary's University. Thus, I kindly request you to fill this questionnaire as frank as you could be whereby your ideas and comments are highly honored and kept confidential. Lastly, the researcher appreciates in advance for your willingness in sharing your valuable ideas, without which the purpose of this study will not be achieved.

Mitiku Wujira

For any further information, please contact me using the following address.

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QUESTIONNAIRES TO BE FILLED BY POST CLEARANCE AUDIT STAFF MEMBERS

General directions:

1. You don't need to write your name
2. Please make a "√" mark on the box provided
3. Write your responses for open ended questions shortly and precisely on the space provided

PART I. General information

1. Gender      a. Male            b. Female
2. Age      a. Less than 25            b. 25-35            c. 36-45            46-55            e. Above 55
3. Educational background  
a. Diploma            b. B.A/B.Sc            c. M.A/M.Sc            d. Ph.D
4. Field of study  
a. Accounting            b. Management            c. Economics        
d. Marketing            e. Other       (Please specify) -----
5. Customs Branch office      a. Addis Ababa Kality            b. Mojo Dry Port
6. Years of experience in ERCA  
a). Below 1 year            b). 1-3 years            c). Between 3 and 5 years            d). Between 5-7        
years            e). Between 7 and 10            f). Above 10 years

PART II. Extent of professional skill and competency

1. Current job occupation in PCA

- a. Junior Auditor  b. Auditor  c. Senior Auditor   
d. Team Coordinator  e. Process Owner

2. Did you have some previous work experience in accounting or financial auditing before joining PCA unit?

- a. Yes  b. No

3. Years of experience in PCA department

- a. Below 1 year  b. 1-3 years   
c. Between 3 and 5 years  d. 5-7 years   
e. Between 7 and 10 years  f. Above 10 years

4. Have you received specialized technical training in relation to your current position beyond the basic induction training? a.  b.

5. If your answer to question no 9 is 'yes', which specialized courses among the following were components of the training? (Please select the training course(s) which you attended and specify the corresponding duration)

- a. Desk audit, Field audit or Comprehensive audit  -----days  
b. Customs valuation  -----days  
c. Tariff classification  ----- days  
d. Rules of Origin/preferential trade agreements  ----- days

- e. ASYCUDA++ user training  ----- days
- f. Accounting principles and techniques  ----- days
- g. Computer-based accounting system  -----days
- h .Professional and Ethical Standards of auditors  ----- days

6. Please indicate whether you **Strongly Agree (SA)**, **Agree (A)**, **have neutral opinion (N)**, **Disagree (D)** or **Strongly Disagree (SD)** with each of the following statements.

Statement	Alternatives				
	SA(5)	A(4)	N(3)	D(2)	SD(1)
PCA staff is provided with appropriate and adequate training on customs laws, regulations and procedures					
PCA auditors continuously receive a variety of technical training packages for enhancing their knowledge and skill					
PCA auditors have comprehensive understanding and proven ability in dealing with customs valuation issues such as; related party transaction, treatment of royalty and license fees ,transfer pricing methods etc. for accurate determination of the customs value of imported or exported goods					
The PCA unit is staffed with appropriate number of Auditors as per the standard number specified in the organizational structure manual					
There is significant turnover of experienced PCA staff members					
PCA staff members are motivated by their works					
PCA staff is equipped with proper logistics such as; convenient office, , vehicles/ vehicle allowances, laptops for field auditors, and internet access					

7. In your opinion, what are the main challenges with regard to the skill and competency of the PCA staff which can create potential obstacles for achieving the objectives of PCA?



III. Basis for Selection of auditees for Audit

1. Please indicate whether you **Strongly Agree (SA)**, **Agree (A)**, **have neutral opinion (N)**, **Disagree (D)** or **Strongly Disagree (SD)** with each of the following statements.

Positive Statement	Alternative				
	SA(5)	A(4)	N(3)	D(2)	SD(1)
PCA is supported with risk management software for risk channeling					
PCA has developed its own risk profiles to maintain a database record of high-risk traders, clearing agents, freight forwarders, and other operators					
PCA has established automated selectivity criteria for identifying high-risk transactions and operators					
PCA uses ASYCUDA <sup>++</sup> modules for risk based audit case selection					
<i>Blue channel</i> customs declarations selected by ASYCUDA <sup>++</sup> are the primary targets for PCA					

2. How do you rate the availability of intelligence/investigation information to PCA in order to target high-risk traders? a. Excellent b. Very good c. Good d. Poor

3. What are the criteria/bases for the selection of auditees for audit in PCA?

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PART IV. Extent of harmonization of PCA with other departments

1. How do you rate the level of harmonization of the PCA with domestic tax audit?

a. Excellent  b. Very good  c. Good  d. Poor  e. Nothing

2. What is your evaluation on the level of integration or harmonization of PCA with respective departments of other customs branch offices for coordinating joint audit procedures to be undertaken on a single company operating in different customs branches?

a. Excellent  b. Very well  c. Well  d. Poor  e. Nothing

3. Do you often request domestic tax returns/documents of an auditee to supplement PCA activities? a. Yes  b. No

PART V. Monitoring and Quality assurance review of Audit outcomes

1. Please indicate whether you **Strongly Agree (SA)**, **Agree (A)**, **have neutral opinion (N)**, **Disagree (D)** or **Strongly Disagree (SD)** with each of the following statement

Statement	Alternatives				
	SA(5)	A(4)	N(3)	D(2)	SD(1)
ERCA has established a monitoring mechanism to evaluate the performance of PCA program					
ERCA has developed and induced operational guidelines for monitory and review of post clearance audit outcomes					
ERCA has adopted quality assurance testing system to measure the objectiveness and fairness of assessments , and the reliability and accuracy of findings and conclusions of PCA					
PCA regularly receives feedback from ERCA on its operations in response to its performance reports					

2. Is there any monitoring and reviewing mechanism for post clearance audit outcomes in your branch office?      a. Yes            b. No

3. If your answer to question no\_16 is 'yes', who is responsible for reviewing and for quality assurance testing the performance, effectiveness and efficiency of PCA?

- a. the branch office        b. headquarters        c. other     (please specify -----

## VI .General Comments

Please comment anything you want for the improvement of the PCA program in ERCA in general and in your branch office in particular.

**Thank you for your cooperation!**

## Annex 2

### Research Questionnaires for Customs Supervisors in PCA, Customs Procedure, Enforcement and Risk Management Sections

#### Interview questions with supervisors

1. How often do PCA conduct post clearance audit on ASYCUDA++ blue channels (AEOs)? What type of audit and what are the selection criteria?
2. How do you verify related party transactions and royalty fees in terms of customs valuation rules?(For only PCA supervisors)
3. What is the basis of ensuring the accuracy of the audit acts and measuring corrective actions?
4. Is there a monitoring and quality assurance review of audits? If yes, where does it take place? And by whom?
5. What is the level of application of ASYCUDA<sup>++</sup> in supporting the PCA activities?
6. Give your general comment on the overall Post Clearance Audit practice and its challenge in the Branch Office.

## Annex 3

### St. MARY'S UNIVERSITY DEPARTEMENT OF MBA IN ACCOUNTING AND FINANCE

RESEARCH QUESTIONNAIRE ON “THE CHALLENGES OF POST CLEARANCE AUDIT  
IN ETHIOPIAN REVENUES AND CUSTOMS AUTHORITY”

Date -----

Dear respondents,

The purpose of this questionnaire is to collect data for preparing a thesis under the title “**The Challenges of Post Clearance Audit in Ethiopian Revenues and Customs Authority: The Case of Addis Ababa Kality and Mojo Dry Port Customs Branch Offices**” for the partial requirement of MBA in Accounting and Finance. The outcomes of this study will contribute to identification of some of the major problems in post clearance audit (PCA) of Ethiopian Revenue and Customs Authority (ERCA) and adoption of corrective measures for the improvement of the operational efficiency of PCA.

This research is intended only for academic purpose authorized by the St. Mary's University. Thus, I kindly request you to fill this questionnaire as frank as you could be whereby your ideas and comments are highly honored and kept confidential. Lastly, the researcher appreciates in advance for your willingness in sharing your valuable ideas, without which the purpose of this study will not be achieved.

Mitiku Wujira

For any further information, please contact me using the following address.

Tel .0913362394

Email: [mite.wujira@gmail.com](mailto:mite.wujira@gmail.com)

## QUESTIONNAIRES TO BE FILLED BY CUSTOMS CLEARING AGENTS

General directions:

I. You don't need to write your name

II. Please make a "√" mark on the box provided

III. Write your responses for open ended questions shortly and precisely on the space provided

IV. Please feel free to use *Amharic* in order to answer open ended questions as long as you can better express your ideas in *Amharic* instead of in *English*

V. Any where in this questionnaire," PCA" refers to the Post Clearance Audit unit in either of the indicated customs branch offices

### PART II. Background Information

1. Gender      a. Male       b. Female

2. Age    a. Less than 25     b. 25-35     c. 36-45     d. 46-55     e. Above 55

3. Educational background

a. Diploma     b. B.A/B.Sc     c. M.A/M.Sc     d. Ph.D

4. Field of study

a. Accounting     b. Management     c. Economics

d. Marketing       e. Other (Please specify) -----

5. Years of experience in as a customs clearing agent

a).Below 1 year     b).1-3years     c).Between 3 and 5 years     d).5-7 years

e). Between 7 and 10     f). Above 10 years

PART II. Closed ended questions

1. Have you or your clients been subjected to audit by PCA? a. Yes  b. No

2. Please put a tick mark “√” corresponding to the given alternatives to indicate your level of agreement with the following statements

Statement	Strongly Agree(5)	Agree (4)	Neutral (3)	Disagre (2)	Strongly Disagree (1)
Auditees are fully informed with PCA requirements					
Audits are conducted by skilled and competent PCA staff					
Auditees rights are fully respected by PCA during the course of the audit					
Selection of auditees by PCA is based on risk selectivity by ASYCUDA++					
For auditees operating in different customs branch offices , joint audit is simultaneously conducted by respective branch offices					
ERCA undertakes review and quality assurance testing on audits conducted by PCA					

**Thanku you for your cooperation**